kotak® Institutional Equities

INDIA DAILY

January 28, 2008

EQUITY MARKETS

		Change, %		
India	**25-Jan**	**1-day**	**1-mo**	**3-mo**
Sensex	18,362	6.6	(9.1)	(4.6)
Nifty	5,383	7.0	(11.5)	(5.6)
Global/Regional indices				
Dow Jones	12,207	(1.4)	(8.7)	(11.6)
Nasdaq Composite	2,326	(1.5)	(13.0)	(17.0)
FTSE	5,869	(0.1)	(9.4)	(11.9)
Nikkie	13,342	(2.1)	(12.8)	(19.2)
Hang Seng	25,122	6.7	(8.2)	(17.4)
KOSPI	1,670	(1.3)	(12.0)	(17.6)

Value traded - India

			Moving avg, Rs bn	
	25-Jan		**1-mo**	**3-mo**
Cash (NSE+BSE)	184.4		241.3	83.1
Derivatives (NSE)	390.1		805.8	1,053
Deri. open interest	894.5		1,187	1,025

Forex/money market

		Change, basis points		
	25-Jan	**1-day**	**1-mo**	**3-mo**
Rs/US$	39.4	0	(7)	(6)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.5	3	(45)	(39)

Net investment (US$mn)

	24-Jan		**MTD**	**CYTD**
FIIs	(335)		14	(2,043)
MFs	88		(341)	845

Top movers -3mo basis

		Change, %		
Best performers	**25-Jan**	**1-day**	**1-mo**	**3-mo**
Rashtriya Chem	96	(5.0)	(14.6)	80.4
NALCO	436	13.8	(12.3)	39.8
BoB	420	3.4	(8.0)	31.2
Exide Indus	80	7.9	6.9	30.4
BoI	395	8.4	8.2	28.6
Worst performers				
Arvind Mills	53	15.8	(40.7)	(29.4)
i-Flex	1,125	16.8	(25.9)	(29.0)
Titan Inds	1,220	10.5	(20.4)	(27.6)
Acc	788	4.7	(21.9)	(27.0)
MTNL	133	6.3	(26.6)	(26.3)

Contents

Results

Updates

News Roundup

Corporate

- Aditya Birla group is picking up 5% stake in Core Projects and Technologies Ltd for Rs135 mn. Core Projects is a leading IT solutions provider with focus on education, health and BFSI (ET)
- BPL Mobile is looking to raise US$2.5 bn to start pan-India mobile services. The company may go in for an equity partner or even a public offering (BS)
- Sajjan Jindal controlled JSW group is planning to build a deep-sea port in Bengal. The total investment in the project would be between Rs10-20 bn.

Economic and political

- Government is considering extending the presumptive tax net to taxi and bus fleet owners and contractors providing raw materials, electrical work and furniture in civil construction. (BS)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line.

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Industrials

BHEL.BO, Rs2165	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	2,500
52W High -Low (Rs)	2925 - 970
Market Cap (Rs bn)	1,060

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	172.4	207.0	251.0
Net Profit (Rs bn)	24.1	31.5	40.2
EPS (Rs)	49.3	64.3	82.1
EPS gth	*44.1*	*30.4*	*27.7*
P/E (x)	43.9	33.7	26.4
EV/EBITDA (x)	23.8	18.5	14.4
Div yield (%)	0.5	0.7	0.8

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	67.7	-	-
FIIs	19.9	2.3	(0.2)
MFs	4.8	3.4	0.9
UTI	-	-	(2.5)
LIC	1.8	1.2	(1.3)

BHEL: Misses expectations led by lower than expected execution

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- **BHEL misses expectations with lower than expected execution, probably execution is yet to pick up on recent orders**
- **Order inflows remain exceptionally strong, further builds growth visibility for the future**
- **First contract for 600 MW unit and gas based plant from RIL highlights ability to address competition based on its product and pricing strategies**
- **Maintain estimates and target price unchanged at Rs2,500, reiterate ADD rating**

BHEL has reported net revenues of Rs49.6 bn (up 14% yoy) and PAT of Rs7.7 bn (up 16% yoy) versus our expectation of revenues of Rs53.3 bn and PAT of Rs8.4 bn. Operating margins have contracted by 130 bps on a yoy basis as staff cost and other expenses combined have increased as a % of sales by 200 bps while material cost ratio has declined by 70 bps. Margins decline is led by power segment (EBIT margin decline of 340 bps yoy) while industry segment margins have expanded by 490 bps. Order inflows have been strong at about Rs104 bn (up 94% yoy) and backlog at Rs780 bn provides a visibility of 3.3 years based on following four quarters estimated revenues. We maintain our estimates, DCF-based target price of Rs2,500/share and ADD rating. Key catalysts include award of negotiated order for 800MW units from NTPC and strong order execution. Key risks include (a) increasing competition and (b) shift of power generation capacity addition sector investments towards private sector.

BHEL misses expectations with lower than expected execution

BHEL has reported net revenues of Rs49.6 bn (up 14% yoy) and PAT of Rs7.7 bn (up 16% yoy) versus our expectation of revenues of Rs53.3 bn and PAT of Rs8.4 bn. Operating margins have contracted by 130 bps on a yoy basis as staff cost and other expenses combined have increased as a % of sales by 200 bps while material costs have declined 70 bps as % of sales. Operating profits have grown by 7.4% to 10 bn from Rs9.3 bn while strong 43% increase in other income, has helped in posting a PAT growth of 16% (Exhibits 1 and 2). Margins decline is led by power segment (EBIT margin decline of 340 bps) while industry segment margins have expanded by 490 bps.

Some reorganization in reported financials is possible as compared to the past as other expenses have remained constant on a yoy basis and have reduced on an absolute basis on a qoq basis in-spite of higher revenues. Employee expenses have increased quite substantially (Rs1.2 bn) on a qoq basis.

Slower than expected execution growth a tad disappointing however order execution on recent orders may not have started in full swing

We believe that slower than expected execution growth (18% yoy for 9MFY08) is probably led by the fact that significant proportion of orders in the order book have been won recently and the execution for those orders may not have picked up as yet.

We highlight negative capital employed in power segment could be due to significant customer advances resulting from a bulging order book

BHEL has reported negative capital employed in the power segment (contributing 74% of revenues in 9MFY08) to the extent of Rs1.3 bn at the end of 3QFY08, substantial reduction from level of Rs20 bn at the end of 3QFY06 and Rs10.8 bn at the end of 3QFY07. Higher level of customer advances with a bulging order book may have resulted in sharp drop in capital employed in the power segment. This also reflects in higher level of cash on the balance sheet and associated other income (other income has grown by 48% in 9MFY08).

Order inflows remain exceptionally strong, further builds growth visibility for the future

BHEL has reported an order backlog of Rs780 bn (Rs726 bn and Rs467 bn at the end of 2QFY08 and 3QFY07 respectively) which implies that order inflows in 1QFY08 should have been of the order of Rs104 bn. Order inflows has thus grown by about 94% versus an order inflow of Rs53 bn in 3QFY07. BHEL's order backlog stood at Rs780 bn, providing 3.3 years of revenue visibility based on estimated following four quarters revenues, compared to a visibility of 2.45 years at the end of 3QFY07 (Exhibit 2).

First contract for 600 MW unit and gas based plant from RIL highlights BHEL's ability to maneuver its product and pricing strategies to address competition

BHEL has received first order for 600 MW unit from TNEB highlighting BHEL's ability to maneuver its product and pricing strategies to address competition as well as offer higher value proposition to its customers. We highlight that lack of 600 MW unit was one of critical lacunae in the product offering which blunted competitive edge of BHEL's units versus Chinese/Korean competition. In a flexible bidding for either 500/600 MW unit size, foreign vendors offered 600 MW units with lower per MW cost versus BHEL's 500 MW units as cost of the BTG package as well as associated auxiliaries does not increase in the same proportion as the unit size increases. We had highlighted in our note dated October 30, 2007 that BHEL has started to bid for 600 MW unit configurations. BHEL has won an EPC contract from Reliance industries for 345 MW gas turbine based power plant again highlighting (a) its competitiveness in advanced class gas turbines and (b) ability to win orders from private sector meeting the required delivery schedules (This project has to be completed in 26 months).

Maintain estimates and target price unchanged at Rs2,500 reiterate ADD rating

We retain our estimates, DCF based target price of Rs2,500/share and ADD rating on the stock.

Key risks include (a) possible deterioration in the competitive position with foreign vendors winning significant orders in India particularly from the private sector, (b) clear possibility of competing domestic manufacturer, (c) potential slips ups in the XIth and XIIth plan execution that would reduce market opportunity, (d) larger role that private sector is likely to have in power generation capacity addition in future as compared to the past. Key catalysts include a) negotiated order for 800MW supercritical units from NTPC and b) strong execution resulting in robust near-term earnings growth.

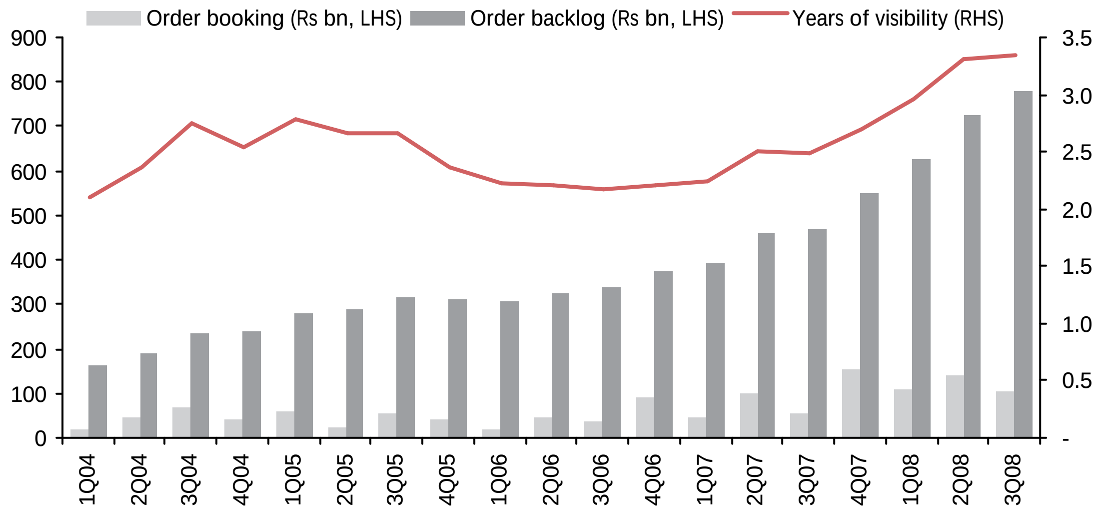
Exhibit 1: Brisk ordering activity in XIth Plan ensures strong order inflows for BHEL

Recent orders won by BHEL

Customer/Project	Project/Location	Capacity (MW)	Configuration	Contract value (Rs bn)	Scope of work
TNEB	Chennai, Tamil Nadu	600	1X 600 MW	24.8	EPC Contract
Reliance Industries	Raigad, Maharashtra	345	1X 345 MW	8.7	EPC Contract
Maithon Power Limited	Maithon, Jharkhand	1,050	2X 525 MW	21.1	EPC Contract
NTPC-TNEB joint venture	Ennore Tamil Nadu	1,000	2X 500 MW	19.9	Equipment supply
Damodar Valley Corporation	Durgapur Steels	1,000	2X 500 MW	32.5	Equipment supply
Sudan	Sudan	1,000	2X 500 MW	40.0	EPC Contract
UP Power Corporation Ltd.	OBRA	1,600	2X 800 MW	64.0	EPC Contract
UP Power Corporation Ltd.	Anpara - D	1,000	2X 500 MW	40.0	EPC Contract
Gujarat State Electricity Corporation Ltd.	Sikka	540	540 MW	20.0	EPC Contract
Damodar Valley Corporation	Koderma	1,000	2X 500 MW	32.8	Equipment supply
Maheshwar Hydro Electric Power Project	Madhya Pradesh	400	400 MW	5.7	Electromechanical component
APGENCO	Rayalseema	210	210 MW	6.1	EPC Contract
GVK Power and Infrastructure	Srinagar hydro power project	330	330 MW	4.5	Electromechanical component
National Hydro Power Corporation	Teesta	270	270 MW	2.8	Electromechanical component
Haryana Power Generation Corporation Ltd.	Jhajjar, Haryana	1,500	3 X 500 MW	29.0	Equipment supply
Total		**11,845**		**351.7**	

Source: News reports, Kotak Institutional Equities estimates.

Exhibit 2. BHEL's order backlog provides highest visibility amongst the industrial stocks at 2.8 years
Order booking, Order backlog & visibility trend for BHEL, March fiscal year-ends



Source: Company data, Kotak Institutional Equities.

Exhibit 3. BHEL 3QFY08 result - key numbers (Rs mn)

		yoy			qoq			yoy		
	FY08E	3QFY08	3QFY07	*% change*	3QFY08	2QFY08	*% change*	9MFY08	9MFY07	*% change*
Net revenues	**208,924**	**49,641**	**43,397**	**14.4**	**49,641**	**39,654**	**25.2**	**121,634**	**103,372**	**17.7**
(Inc)/Dec in WIP	-	687	1,236	(44.4)	687	3,798	(81.9)	4,342	4,197	3.5
Raw material consumption	(116,555)	(28,510)	(25,845)	10.3	(28,510)	(25,434)	12.1	(72,952)	(62,828)	16.1
Staff cost	(26,532)	(7,464)	(5,105)	46.2	(7,464)	(6,296)	18.5	(19,799)	(15,474)	27.9
Other items	(21,687)	(4,380)	(4,390)	(0.2)	(4,380)	(4,769)	(8.2)	(13,191)	(12,229)	7.9
Total Expenditure	(164,775)	(39,666)	(34,105)	16.3	(39,666)	(32,702)	21.3	(101,600)	(86,335)	17.7
EBIDTA	**44,149**	**9,976**	**9,292**	**7.4**	**9,976**	**6,952**	**43.5**	**20,034**	**17,037**	**17.6**
Other income	8,262	2,649	1,855	42.8	2,649	2,334	13.5	7,046	4,755	48.2
EBIDT	52,411	12,624	11,147	13.3	12,624	9,286	36.0	27,080	21,792	24.3
Interest	(107)	(98)	(120)	(18.5)	(98)	(19)	427.6	(138)	(387)	(64.4)
Depreciation	(2,958)	(762)	(662)	15.0	(762)	(694)	9.7	(2,145)	(1,967)	9.0
PBT	**49,346**	**11,765**	**10,365**	**13.5**	**11,765**	**8,573**	**37.2**	**24,797**	**19,438**	**27.6**
Tax	(17,866)	(4,046)	(3,688)	9.7	(4,046)	(2,973)	36.1	(8,589)	(6,794)	26.4
PAT	**31,480**	**7,719**	**6,676**	**15.6**	**7,719**	**5,600**	**37.8**	**16,208**	**12,643**	**28.2**
Key ratios (%)										
Raw Material to Sales	56.3	56.0	56.7		56.0	54.6		56.4	56.7	
Staff Cost to sales	12.8	15.0	11.8		15.0	15.9		16.3	15.0	
Other exp to sales	10.5	8.8	10.1		8.8	12.0		10.8	11.8	
OPM	21.3	20.1	21.4		20.1	17.5		16.5	16.5	
EBIDTA margin	25.3	25.4	25.7		25.4	23.4		22.3	21.1	
Effective tax rate	36.2	34.4	35.6		34.4	34.7		34.6	35.0	
Order Backlog		780	467		780	726		780	467	
Order Inflow		104	53	94.1	104	142	(26.8)	352	196	79.5
Revenue mix (%)										
Power	-	74.5	73.5		74.5	72.7		73.6	73.2	
Industry	-	25.5	26.5		25.5	27.3		26.4	26.8	
EBIT margin (%)										
Power	-	20.5	23.9		20.5	23.1		21.5	21.7	
Industry	-	17.2	12.3		17.2	14.1		9.7	10.4	

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 4: Our DCF based valuation with favorable assumptions of execution, market share and margins result in a target price of Rs2,500/share

DCF valuation for BHEL, March fiscal year ends 2008E-2018E, (Rs mn)

	Xth plan	XIth plan	XII plan
Planned capacity addition	37,582	72,169	92,604
BHEL's share (in MW)	19,369	41,558	53,019
Mkt share (%)	51.5	57.6	57.3
Add: Projects executed abroad		2500	7000
Total execution		**44058**	**60019**

	FY2003-07	FY2008-10	FY2011-12	FY2012-15	FY2016-17
Capacity addition by BHEL (in MW)		22,880	21,120	31,200	28,800
a) Power revenues (Rs bn)	434.7	629.2	633.6	1,029.6	1,065.6
Revenues / MW (Rs mn)		27.5	30.0	33.0	37.0
b) Industry revenues (Rs bn)	172.0	214.8	196.6	422.4	406.2
Total revenues	**606.7**	**844.0**	**830.2**	**1,452.0**	**1,471.8**

Plan period year	**1**	**2**	**3**	**4**	**5**
Execution phaseout	14	17	21	23	25

	Existing orders ensure visibility			Further XIth plan order inflows		XII plan execution of 60,000 MW; 16% CAGR growth in industry sector revenues					Terminal year
Year to March	**2008E**	**2009E**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**
Revenue	**208,924**	**252,877**	**306,749**	**360,835**	**394,986**	**397,683**	**476,360**	**577,921**	**698,661**	**773,151**	**850,466**
Growth (%)	20.1	21.0	21.3	17.6	9.5	0.7	19.8	21.3	20.9	10.7	10.0
EBIT margin	22.6	23.4	18.7	24.0	24.3	22.0	22.0	22.0	22.0	22.0	22.0
EBIT*(1-tax rate)	**31,121**	**38,993**	**37,804**	**57,091**	**63,415**	**57,744**	**69,167**	**83,914**	**101,446**	**112,261**	**123,488**
Depreciation	2,958	3,274	3,614	4,226	4,770	4,200	4,200	4,200	4,200	4,200	4,200
Change in working capital	11,856	(7,467)	(10,363)	(16,392)	(3,830)	(74)	(2,156)	(2,783)	(3,308)	(2,041)	(2,118)
Capital expenditure	(4,300)	(10,000)	(8,000)	(5,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)
Free Cash Flows	**41,635**	**24,800**	**23,055**	**39,925**	**61,355**	**58,870**	**68,212**	**82,332**	**99,338**	**111,421**	**122,569**
Growth (%)	82	(40)	(7)	73	54	(4)	16	21	21	12	10
Years discounted	-	-	1	2	3	4	5	6	7	8	9
Discount factor	1.00	1.00	0.89	0.79	0.71	0.63	0.56	0.50	0.45	0.40	0.35
Discounted cash flow	**41,635**	**24,800**	**20,539**	**31,686**	**43,380**	**37,081**	**38,276**	**41,157**	**44,239**	**44,205**	**43,322**

Target price calculation	**Rs mn**
Sum of free cash flow	367,000
Discounted terminal value	778,057
Enterprise value	1,145,056
Add Investments	83
Net debt	(67,279)
Net present value-equity	1,212,419
Shares o/s	490
Target price /share(Rs)	**2,477**

Terminal value calculation	
Cash flow in terminal year	122,569
Growth to perpetuity (g)	**6.0%**
Capitalisation rate (WACC-g)	6.3%
Terminal value	1,961,110
Discount period (years)	8.0
Discount factor	0.40
Discounted terminal value	**778,057**

Terminal multiples	
EV/EBIDTA	10.3
P/FCF	17.0

WACC calculation	
Risk-free rate (Rf)	7.5%
Beta (B)	1.00
Equity risk premium	5.0%
Expected market Return (Rm)	12.5%
Cost of Equity (Ke)	12.5%
Cost of Debt (Kd) (Post-tax)	8.0%
WACC	**12.3%**

Note: We have used cash EBIT margins for DCF, effecting the margins in FY2010E, when we expect the employee cost related provisions to be realised as cash expense

Source: Kotak Institutional Equities estimates.

Metals

TISC.BO, Rs714	
Rating	REDUCE
Sector coverage view	Neutral
Target Price (Rs)	775
52W High -Low (Rs)	970 - 353
Market Cap (Rs bn)	614.0

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	175.5	199.2	220.1
Net Profit (Rs bn)	43.7	46.1	50.4
EPS (Rs)	50.9	53.6	58.6
EPS gth	*(20.9)*	*5.4*	*9.3*
P/E (x)	14.0	13.3	12.2
EV/EBITDA (x)	8.6	7.6	7.5
Div yield (%)	1.5	1.6	1.6

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	33.8	-	-
FIIs	21.4	1.1	(0.0)
MFs	3.4	1.1	(0.0)
UTI	-	-	(1.1)
LIC	10.1	3.0	1.9

Tata Steel: Consolidated EBITDA lower than estimates; maintain Reduce rating

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- **Consolidated EBITDA lower on sequential basis, despite higher standalone EBITDA; we enumerate probable reasons.**
- **Calling for several clarifications required to arrive at recurring operating earnings**
- **Continue to maintain REDUCE rating following concerns on the company's ability to maintain margins in a challenging cost inflation environment; retain target price of Rs775/share**

2QFY08 sequential drop in consolidated operating EBITDA despite increase in standalone earnings surprise us, given that steel prices during this period have remained stable and costs for Corus would have stayed put. We are calling for several clarifications since the press release does not disclose a lot of details required to form an understanding in the recurring operating EBITDA calculation. We continue to rate the stock as REDUCE with a target price of Rs775/share.

Sequential drop in operating EBITDA surprise us. We are surprised to note a sequential fall of ~4% in Tata Steel's consolidated EBITDA, despite ~20% jump in Tata Steel's standalone EBITDA for 2QFY08. Since other subsidiaries do not form material proportion of the difference (between standalone and consolidated), we assume the fall in consolidated EBITDA followed lower operating performance from Corus Group.

A sequential drop in operating performance from Corus Group has surprised us since (a) Steel prices in Europe have stayed stable during this period, and (b) Raw material prices for Corus would have stayed stable as well, since most of the raw materials follow annual pricing from Jan-Dec.

In absence of communication from Tata Steel's management, we believe the following may have led to a drop in Corus Group EBITDA:

(a) Steel deliveries may have fallen on a sequential basis; thus lowering the absolute amount of EBITDA, albeit maintained profitability.

(b) Costs may have increased on a sequential basis, thus resulting in lower profitability. Freight rates have certainly gone higher during the 2Q, and so have ore and coal prices.

(c) 1QFY08 may have been impacted by currency movement, which did not recur in 2QFY08 results. We noted in the 1QFY08 results note that Corus' raw materials are priced in USD and a large part of finished goods sales in Euro/GBP, such that the company gains if USD depreciates.

We call for several clarifications to assess operating and recurring earnings for the reported first half. These are also the queries we intend to clarify during the upcoming conference call to discuss Tata Steel's 3Q standalone results.

(a) Assuming the reported tax rate pertains to all reported pre-tax earnings (including extra-ordinary items), the ETR stood at 18.5%, which is low even after considering the tax sops that Tata Steel might have following accumulated losses of Corus Group and its tax-effective borrowing program. On the other hand, ETR climbs to ~40% on assumption that tax relates only to pre-tax earnings excluding extra-ordinary items. Request a clearer clarification on that.

(b) Corus Group's raw-materials are predominantly priced in USD and the revenue is largely recorded in GB-Pound and Euro—such that the company gains when the dollar depreciates (USD depreciated 6% in current quarter versus the GBP). In such a scenario,

- What is the extent of foreign exchange cover that the company carries?
- How the operating EBITDA would have been different, had the USDollar not depreciated?
- The company carries price contracts on raw materials that hold for one year. Have those contracts been marked-to-market for the currency impact?

(c) Basic details required to calculate Corus Group's standalone EBITDA and net income to facilitate comparison—like steel deliveries, net revenues, EBITDA, pre-tax profits and post-tax profits.

We continue to maintain our Reduce rating and target price of Rs775. Since our re-initiation in July last year, Tata Steel has severely underperformed peers and Sensex by about 2% (although this might be miscalculation considering that Tata Steel's stock has gone ex-rights during this period). We continue to maintain our concern on possible inability of Tata Steel to maintain margins in an inflationary cost environment. Maintain REDUCE rating and target price of Rs775/share.

Sequential drop in consolidated EBITDA surprises us

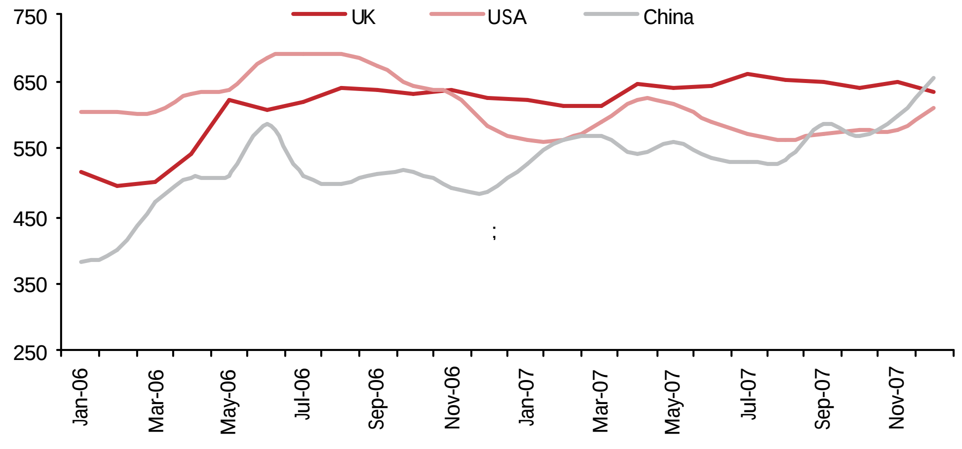
Calculation of implied EBITDA of Corus Group, March fiscal year-ends (Rs mn)

	1QFY08	2QFY08
Consolidated EBITDA	49,043	47,227
Tata Steel standalone EBITDA	16,992	20,254
Assumed other subsidaries EBITDA	1,112	1,112
Implied Corus Group EBITDA	**30,939**	**25,861**
Sequential change in EBITDA		(5,079)
Sequential change in EBITDA (%)		**(16.4)**

Source: Company data, Kotak Institutional Equities.

Steel prices have remained flattish during 2QFY08

Spot HR coil prices for UK, USA and China (US$/ton)



Source: CRU

Tata Steel, SOTP valuation, March fiscal year-ends, 2009E basis (Rs mn)

	EBITDA		Multiple	Enterprise value		EV	Vauation basis
	(Rs mn)	(£ mn)	(X)	(Rs mn)	(USD mn)	(Rs/share) (a)	
Tata Steel standalone	87,058	-	7.0	609,404	14,838	709	Valued on FY2009E EBITDA
Corus Group standalone (b)	68,214	825	6.5	443,388	10,796	516	Valued on CY2008E EBITDA
Present value of synergies				42,431	1,033	49	Probability adjusted
Total Enterprise Value				**1,095,223**	**26,667**	**1,274**	
Tata Steel standalone net debt				57,243			FY2009E, adjusted for cash and marketable securities
Corus Group standalone net debt				54,583			December 2008E, adjusted for cash and marketable securities
Borrowings in Tata Steel Asia Holdings' account				45,177			
Borrowings in Tulip UK's account				24,642			
Senior debt at Tata Steel UK's account (d)				164,280			
Mezannine debt at Tata Steel UK's account (d)				127,317			
Total borrowings				**473,242**	**11,523**	**550**	
Arrived market capitalization				**621,981**	**15,144**	**723**	
Value of investments				**36,114**	**879**	**42**	
Market capitalization (including Investments)						**765**	
Target price (Rs)						**775**	

Notes:

(a) Based on fully diluted number of shares.

(b) Based on 2007 December-ended forecasted EBITDA.

(c) Currency conversion from GBP and USD into INR is based on current exchange rates.

(d) Refinanced by US$6.2 bn by way of non-recourse debt, of which US$3.3 bn is five year amortizing loan and balance is 7 year amortizing loan.

Source: Company, Kotak Institutional Equities estimates.

Industrials

BAJE.BO, Rs1883	
Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	1,750
52W High -Low (Rs)	2180 - 1352
Market Cap (Rs bn)	150.6

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	40.5	41.5	49.8
Net Profit (Rs bn)	7.3	7.1	9.0
EPS (Rs)	91.7	88.7	112.3
EPS gth	*21.9*	*(3.3)*	*26.7*
P/E (x)	20.5	21.2	16.8
EV/EBITDA (x)	11.1	10.8	8.3
Div yield (%)	1.0	1.3	1.3

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	75.9	-	-
FIIs	8.8	0.2	(0.2)
MFs	8.3	0.9	0.5
UTI	-	-	(0.4)
LIC	1.5	0.1	(0.2)

Bharat Electronics: Another disappointing quarter led by low execution, reduce full year estimates, maintain REDUCE rating

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- **Misses expectations due to lower-than-expected execution, margins decline from negative operating leverage, employee cost provisions**
- **Reduce our execution and earnings estimates to reflect disappointing performance in 9MFY08, may miss MOU targets this year**
- **Highlight risk to even our revised full year estimates**
- **Cut our DCF-based target price to Rs1,750 and retain REDUCE rating**

BEL has reported 3QFY08 stand-alone revenue of Rs6.6 bn (down 23% yoy) and PAT of Rs1.13 bn (down 24% yoy) versus our estimate of revenues of Rs12.1 bn and PAT of Rs2.2 bn. Margins have declined by 370 bps as the effect of negative operating leverage and higher employee costs (including provisions) have been partially cushioned by lower material cost to sales ratio. We have reduced our revenue estimate for FY2008E and FY2009E from Rs48.5 and Rs57 bn to Rs41.5 and Rs50 bn respectively. We have reduced our earnings per share estimates for FY2008E and FY2009E from Rs106 and Rs126 to Rs89 (reduced by 16%) and Rs112 (reduced by 11%) respectively. Highlight risk to even our revised full year estimates, given very low execution (only 45%) in the first nine months of the year versus 55% in the last two fiscal years. We cut our DCF-based target price to Rs1,750/share from Rs1,900/share earlier and retain our REDUCE rating on the stock.

Misses expectations due to lower-than-expected execution, margins decline from negative operating leverage

BEL has reported 3QFY08 stand-alone revenue of Rs6.6 bn (down 23% yoy) and PAT of Rs1.13 bn (down 24% yoy) versus our estimate of revenues of Rs12.1 bn and PAT of Rs2.2 bn. EBITDA in 3QFY08 is Rs1.3 bn (down 36% yoy) compared to our estimate of Rs2.9 bn. EBITDA margin has declined by 370 bps, effect of negative operating leverage has been partially cushioned by lower material cost to sales ratio (1050 bps) (Exhibit 1).

Employee costs have increased led by provisions and one-off adjustments

BEL is making provisions for increase in employee costs related to sixth pay commission recommendations amounting to about Rs90-100 mn in each of the quarter. In 3QFY08BEL has probably recognized additional Rs120 mn on account of employee cost pertaining to F2007.

This year’s performance may break the track record of achieving revenue targets as per MOU with Ministry of Defense

We highlight that BEL has signed a performance MOU with the Ministry of Defense to achieve revenues of Rs47.25 bn in FY2008. We believe that this year performance may not be able to keep pace with MOU targets. BEL has consistently exceeded its MOU targets for the past nine years.

Reduce our execution and earnings estimates to reflect disappointing performance in 9MFY08

We have reduced our revenue estimate for FY2008E and FY2009E from Rs48.5 and Rs57 bn to Rs41.5 and Rs50 bn respectively. We have reduced our earnings per share estimates for FY2008E and FY2009E from Rs106 and Rs126 to Rs89 (reduced by 16%) and Rs112 (reduced by 11%) respectively.

Highlight risk to even our revised full year estimates, given very low execution in the first nine months of the year

BEL has typically had a quarterly execution skew with about 45% execution in the fourth quarter. However in 9MFY08, BEL has executed only about 45% of our revised full-year revenue estimate. Thus we highlight a risk that even our revised FY2008E estimates may be missed given that in 9MFY08 only 45% of our full-year revenue estimates have been achieved. We were expecting stronger revenue growth given the strong order book of Rs91.3 bn at the end of FY2007.

Cut target price to Rs1,750 and retain REDUCE rating

We cut our DCF-based target price to Rs1,750/share from Rs1,900/share earlier (Exhibit 2). We retain our REDUCE rating based on (a) the risk to our full year estimates, (b) downside of 6.5% based on our target price of Rs1,750/share, (c) potential long-term increase in competition given that several firms may be awarded the Raksha Udyog Ratna status (as highlighted in our note on 29th August 2007), (d) lack of publicly available data points/news flows to justify more optimism, (e) infrequent investor communication and disclosures. Key upside risks arise from non-defense/overseas orders, and execution spurt in 4QFY08 which could help the company exceed our full year estimates.

Exhibit 1: BEL - key numbers - 3QFY08 (Rs mn)

					yoy			qoq			yoy	
	FY2007	FY2008E	FY2009E	3QFY08	3QFY07	*% change*	3QFY08	2QFY08	*% change*	9MFY08	9MFY07	*% change*
Net Sales	**39,527**	**39,804**	**47,950**	**6,622**	**8,638**	**(23.3)**	**6,622**	**7,089**	**(6.6)**	**17,755**	**21,812**	**(18.6)**
Raw material consumed	(20,652)	(21,156)	(25,845)	(2,813)	(4,580)	(38.6)	(2,813)	(3,588)	(21.6)	(8,690)	(11,698)	(25.7)
Employee expenses	(5,170)	(6,199)	(6,508)	(1,601)	(1,109)	44.3	(1,601)	(1,277)	25.4	(4,327)	(3,386)	27.8
Other expenses	(4,290)	(3,781)	(4,555)	(940)	(972)	(3.3)	(940)	(691)	36.0	(1,983)	(2,165)	(8.4)
Total expenditure	(30,112)	(31,136)	(36,909)	(5,354)	(6,662)	(19.6)	(5,354)	(5,556)	(3.6)	(14,999)	(17,249)	(13.0)
EBITDA	**9,415**	**8,668**	**11,041**	**1,269**	**1,976**	**(35.8)**	**1,269**	**1,534**		**2,756**	**4,563**	**(39.6)**
Other Income	1,964	2,469	2,916	647	407	58.9	647	497	30.2	1,800	1,299	38.6
PBIDT	11,379	11,138	13,957	1,916	2,384	(19.6)	1,916	2,031	(5.7)	4,556	5,862	(22.3)
Interest	(8)	(8)	(8)	(0)	(2)	(80.0)	(0)	(0)	(25.0)	(2)	(5)	(59.6)
PBDT	11,371	11,130	13,949	1,915	2,382	(19.6)	1,915	2,030	(5.7)	4,554	5,857	(22.2)
Depreciation	(846)	(928)	(995)	(234)	(205)	14.3	(234)	(221)	5.9	(666)	(611)	8.9
PBT	**10,525**	**10,202**	**12,953**	**1,681**	**2,177**	**(22.8)**	**1,681**	**1,809**	**(7.1)**	**3,889**	**5,246**	**(25.9)**
Tax	(3,343)	(3,255)	(4,132)	(552)	(696)	(20.7)	(552)	(581)	(5.0)	(1,267)	(1,679)	(24.5)
PAT	**7,182**	**6,947**	**8,821**	**1,130**	**1,482**	**(23.8)**	**1,130**	**1,228**	**(8.0)**	**2,621**	**3,567**	**(26.5)**
Key ratios (%)												
Material cost ratio	52.2	53.2	53.9	42.5	53.0		42.5	50.6		48.9	53.6	
Employee cost ratio	13.1	15.6	13.6	24.2	12.8		24.2	18.0		24.4	15.5	
Other expenses	10.9	9.5	9.5	14.2	11.3		14.2	9.7		11.2	9.9	
Operating margin	23.8	21.8	23.0	19.2	22.9		19.2	21.6		15.5	20.9	
Effective tax rate	31.8	31.9	31.9	32.8	31.9		32.8	32.1		32.6	32.0	
PAT Margin	18.2	17.5	18.4	17.1	17.2		17.1	17.3		14.8	16.4	

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 2: DCF for BEL, March fiscal year ends 2007-2018E, (Rs mn)

Year	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Revenues	40,485	41,520	47,748	54,910	63,146	72,618	79,880	87,868	96,655	106,321	116,953	128,648
Growth (%)	10.8	2.6	15.0	15.0	15.0	15.0	10.0	10.0	10.0	10.0	10.0	10.0
EBIT (excl finl income)	9,975	9,591	8,595	9,884	11,366	13,071	14,378	15,816	17,398	19,138	21,051	23,157
Growth (%)	19.9	(3.8)	(10.4)	15.0	15.0	15.0	10.0	10.0	10.0	10.0	10.0	10.0
EBIT Margins	25	23	18	18	18	18	18	18	18	18	18	18
Effective tax rate	31.7	31.7	31.7	31.7	31.7	31.7	31.7	31.7	31.7	31.7	31.7	31.7
EBIT*(1-tax rate)	**6,817**	**6,550**	**5,869**	**6,750**	**7,762**	**8,926**	**9,819**	**10,801**	**11,881**	**13,069**	**14,376**	**15,814**
Growth (%)	19.5	(3.9)	(10.4)	15.0	15.0	15.0	10.0	10.0	10.0	10.0	10.0	10.0
Depreciation / Amortisation	933	1,012	1,100	1,075	1,075	1,075	1,075	1,075	1,075	1,075	1,075	1,075
Change in Working Capital	(2,725)	6,260	(1,868)	(2,149)	(2,471)	(2,842)	(2,179)	(2,396)	(2,636)	(2,900)	(3,190)	(3,509)
Capital Expenditure	(1,013)	(1,000)	(850)	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)	(1,200)
Free Cash Flows	**4,013**	**12,822**	**4,251**	**4,476**	**5,166**	**5,960**	**7,516**	**8,280**	**9,120**	**10,045**	**11,062**	**12,180**
Growth (%)	(38.2)	219.5	(66.8)	5.3	15.4	15.4	26.1	10.2	10.2	10.1	10.1	10.1
Years discounted		-	-	1	2	3	4	5	6	7	8	9
Discount factor		1.00	1.00	0.89	0.79	0.70	0.62	0.55	0.49	0.44	0.39	0.35
Discounted cash flow		**12,822**	**4,251**	**3,979**	**4,082**	**4,186**	**4,692**	**4,595**	**4,499**	**4,404**	**4,311**	**4,220**

WACC calculation	
Risk-free rate (Rf)	6.0%
Beta (B)	1.0
Equity risk premium	6.5%
Expected market Return (Rm)	12.5%
Cost of Equity (Ke)	12.5%
Cost of Debt (Kd) (Post-tax)	8.0%
WACC (Beta implied)	12.5%
WACC assumed	12.5%

Terminal value calculation	
Cash flow in terminal year	12,180
g	5.0%
Capitalisation rate	7.5%
Terminal value	162,403
Discount period (years)	8
Discount factor	0.4
Discounted value	63,296

NPV calculation	Rs mn	% of total
Sum of free cash flow	51,820	37%
Terminal value	63,296	46%
Enterprise value	115,116	
Add Investments	-	
Net debt	(23,515)	17%
Net present value-equity	138,631	
Shares o/s	80.0	
NPV /share(Rs)	**1,733**	

Source: Company data, Kotak Institutional Equities estimates.

Banking

CBI.BO, Rs109	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	130
52W High -Low (Rs)	155 - 74
Market Cap (Rs bn)	43.9

Financials

June y/e	2007E	2008E	2009E
Sales (Rs bn)	30.4	30.6	34.2
Net Profit (Rs bn)	5.0	6.2	6.2
EPS (Rs)	15.4	15.3	15.3
EPS gth	*3.0*	*(0.6)*	*(0.1)*
P/E (x)	7.1	7.1	7.1
P/B (x)	2.6	1.5	1.3
Div yield (%)	2.3	2.8	2.8

Central Bank of India: Higher treasury income and lower provision expenses rather than core performance drive PAT

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- **CBI reported net profit of Rs2 bn up 50% yoy**
- **Core operational performance was below par**
- **Retain ADD rating on the stock with a target price of Rs130**

Central Bank of India reported PAT in 3QFY08 of Rs2 bn up 50% yoy. Higher treasury income (24% of PBT), lower provision expenses were the prime drivers of earnings in the current quarter. The reduction in gross and net NPLs in absolute terms was a key positive. We have updated our earnings estimate post these quarterly results and discussion with the management. We retain our ADD rating on the stock, but reduce our target price on the stock to Rs130 from Rs150. Our reduction in target price is due to the removal of a 15% premium that we had assigned earlier for technical reasons.

Revise our target price downwards to Rs130 from Rs150. In our previous report on the company we had noted that Central Bank of India's stock could trade at a premium to our fair value of Rs130 for the following factor: current free float of Central Bank of India is at 19.8%, which would allow foreign investors to invest in the stock without breaching the 20% limit of foreign investment in public banks. The current FII holding in the stock is 8%. Hence, we had ascribed a 15% premium to our fair value and had a target price of Rs150. Given the increase in volatility in markets over the last week, we believe that the premium to our fair value may not be justified and have removed the same from our target price calculations. Retain our ADD rating with a target price of Rs130.

NII declined 8% yoy—a disappointing performance. Central Bank of India's net interest income (NII) declined to Rs5.4 bn in 3QFY08. The reduction in NII can be attributed to the following: (1) incremental deposit growth in 3QFY08 was Rs62 bn, while incremental credit growth was lower at Rs49 bn; (2) CASA ratio declined to 38% as of December 2007 from 43% as of December 2006; (3) cost of deposits increased to 6.3% in the current quarter from 5.1% in 3QFY07.

Higher treasury income and recoveries support other income. Central Bank of India's non-interest income in 3QFY08 was Rs2.1 bn. Treasury income of Rs690 mn and recoveries from written-off accounts of Rs340 mn were the prime contributors of this income. Fee and exchange income was Rs850 mn in the current quarter, which is similar to the quarterly run-rate of previous years.

We also note the following: (1) Central Bank of India has started recording recoveries from written-off accounts as part of non-interest income from 1HFY08, in prior periods this was netted against the loan loss provisions; (2) There has been a pick-up in the miscellaneous income (sub-item of non-interest income) to Rs240 mn in 3QFY08, while this income in FY2007 was Rs302 mn. We are unclear on the reasons for this increase and await greater clarity from the management.

Stable asset quality and write-back of investment depreciation aid profits. Central Bank of India's gross NPLs were Rs25.7 bn as of December 2007, which was marginally lower than the gross NPLs as of September 2007 as of Rs26 bn. Consequently, the credit provisions (standard asset provisions + loan loss provisions) were Rs300 mn in 3QFY08—a meagre amount for an advances book of Rs589 bn. Further, the company also benefited due to the softening of interest rates in the Gsec yields, there was a write-back of investment depreciation expenses to the tune of Rs420 mn in the current quarter.

Central Bank of India

Quarterly/half-yearly data, 1H07-3Q08 (Rs mn)

	1HFY07	3QFY07	1HFY08	3QFY08	% chg
Interest Earned	28,791	15,802	37,311	20,225	28.0
Interest/Discount on Advances/Bills	16,555	9,429	24,296	12,921	37.0
Interest on Investment	11,234	5,726	11,960	6,318	10.3
Interest on bal. with RBI & inter- bank	1,002	647	782	730	12.8
Other Interest	-		274	256	
Interest expense	17,191	9,857	25,928	14,776	49.9
Net interest income	**11,601**	**5,945**	**11,383**	**5,449**	**(8.4)**
Other Income	**2,380**	**1,071**	**2,494**	**2,120**	**98.0**
Treasury	486	NA	NA	690	
Commission & exchange	1,587	NA	NA	850	
Others	149	NA	NA	580	
Total Income	**13,981**	**7,016**	**13,878**	**7,568**	**7.9**
Operating Expenses	**8,181**	**4,271**	**8,763**	**4,477**	**4.8**
Payments to / Provisions for employees	5,939	2,999	6,091	3,238	8.0
Other operating expenses	2,242	1,272	2,673	1,239	(2.6)
Operating Profit Before Prov. & Cont.	5,800	2,745	5,114	3,092	12.6
Provisions & Contingencies	2,225	976	2,441	174	(82.2)
Investment amortization	NA	NA	NA	290	
Loan loss provisions	NA	NA	NA	300	
Investment depreciation	NA	NA	NA	(420)	
Profit before tax	**3,575**	**1,769**	**2,673**	**2,918**	**64.9**
Provision for Taxes	1,427	428	454	908	111.9
Net Profit	**2,148**	**1,341**	**2,220**	**2,010**	**49.9**
Tax rate	39.9	24.2	17.0	31.1	
Key balance shete items (Rs bn)					
Deposits	762	750	908	971	29.5
CASA	326	325	358	368	13.2
CASA (%)	42.8	43.4	39.4	37.9	
Advances	432	463	540	589	27.2
Priority sector	195	207	228	240	15.9
Agriculture	76	84	92	101	20.2
Retail	47	54	59	72	34.9
Housing	NA	37	29	63	70.9
SME	NA	39	NA	56	42.9
Asset quality data (Rs mn)					
Gross Non Performing Assets	28	28	26	26	(7.2)
Gross Non Performing Assets (%)	6.5	5.9	4.8	4.4	
Net Non Performing Assets	9	8	7	7	(13.3)
Net Non Performing Assets (%)	2.1	0.0	1.4	1.2	
Yield management measures (%)					
Yield on advances	8.5	8.7	9.6	9.7	
Cost of deposits	4.8	5.1	6.0	6.3	
Yield on investments	7.8	NA	7.5	7.2	
NIM	3.2	3.0	2.7	2.5	
Capital adequacy details (%)					
CAR	11.5	11.5	12.4	11.6	
Tier I	7.1	7.1	8.3	7.9	
Tier II	4.4	4.4	4.1	3.7	

Source: Company.

Central Bank of India- old and new estimates

March fiscal year-ends, 2008-2010E (Rs mn)

	Old estimates			New estimates			% change		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
Net interest income	25,199	27,517	31,514	23,268	25,826	30,061	(7.7)	(6.1)	(4.6)
Loan growth (%)	22	22	21	24	22	21			
NIM (%)	2.6	2.4	2.4	2.4	2.2	2.2			
Loan loss provisions	5,167	5,593	7,629	2,608	4,266	6,896	(49.5)	(23.7)	(9.6)
Other income	6,519	7,797	9,068	7,323	8,334	9,582	12.3	6.9	5.7
Treasury income	-	-	-	1,300	500	500			
Operating expenses	18,004	20,233	22,038	17,972	20,162	21,654	(0.2)	(0.4)	(1.7)
Employee expenses	12,029	13,394	14,169	12,373	13,776	14,574	2.9	2.9	2.9
Amortization of investments	689	552	441	1,160	928	742	68.3	68.3	68.3
Net profit	5,315	5,923	6,999	6,170	6,163	7,245	16.1	4.1	3.5

Source: Company, Kotak Institutional Equities estimates.

Media

DSTV.BO, Rs72	
Rating	REDUCE
Sector coverage view	Cautious
Target Price (Rs)	75
52W High -Low (Rs)	143 - 51
Market Cap (Rs bn)	31.5

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	1.9	4.1	7.8
Net Profit (Rs bn)	(2.5)	(4.0)	(4.0)
EPS (Rs)	(5.8)	(9.0)	(8.9)
EPS gth	-	-	-
P/E (x)	(12.3)	(8.0)	(8.0)
EV/EBITDA (x)	(17.4)	(17.7)	(36.6)
Div yield (%)	-	-	-

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	57.9	-	-
FIIs	19.1	0.1	(0.0)
MFs	5.2	0.1	0.0
UTI	-	-	(0.1)
LIC	2.7	0.1	(0.0)

Dish TV: Disappointing 3QFY08 results; company to remain in investment phase for some more time

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- **3QFY08 net loss at Rs1.16 bn, well above our expectations**
- **High advertising costs a result of aggressive marketing for subscriber addition**
- **Fine-tuned estimates; retain REDUCE and reduced 12-month DCF-based target price to Rs75 from Rs80**

Dish TV reported 3QFY08 net loss of Rs1.16 bn, much higher than 2QFY08 loss of Rs932 mn and our Rs890 mn estimate. Reported revenues increased 32% qoq to Rs1.12 bn from Rs850 mn in 2QFY08, higher than our Rs1.04 bn estimate. Dish TV's aggressive marketing during the festival season in 3QFY08 led to higher-than-expected advertising expenses; however, monthly subscriber addition improved to 99,000 in 3QFY08 versus 93,000 in 2QFY08. We have increased losses on account of higher expenses and our 12-month DCF-based target price is now Rs75 (Rs80 previously). Key upside risks to our TP stem from higher-than-expected subscribers and ARPUs. We would wait to see the pricing strategy of new entrants before reviewing our cautious view on the stock.

3QFY08 results analysis—not much to cheer

Subscriber addition improved qoq but December addition appears to have slowed. Dish TV's monthly subscriber additions in 3QFY08 increased to 99,000 from 93,000 in 2QFY08 led by (1) festival season in 3QFY08 and (2) more aggressive marketing. Dish's end-3QFY08 subscriber figure stood at 2.66 mn (2.36 mn at end-2QFY08). It appears that the company's subscriber addition has slipped in the month of December to 82,000 after a robust 126,000 in November and 89,000 in October. The exclusive distribution alliance with Future group will increase the reach of Dish TV and likely provide further impetus to its subscriber addition.

We model Dish reaching 2.98 mn subs by end-FY2008E implying that it would need to add 107,000 subs every month in 4QFY08E to reach our target. Dish TV has only 12% of its subscriber base from South India (25% share of total C&S households in India) and we do not view Sun Direct, which started operations in December 2007, as a big threat to Dish TV. The key for Dish TV would be the ability to maintain net monthly additions in the face of strong competition from Reliance ADAG and Bharti Airtel, which will start operations in 1QFY09E. We model Dish adding 100,000 subs every month in FY2009E and its subscriber base to reach 4.2 mn subs by end-FY2009E.

ARPUs improve in 3QFY08. 3QFY08 ARPU improved a strong 14% qoq to Rs139 (our estimate: Rs130) probably led by increase in number of paying subs due to conversion of hitherto 'free' subscribers under various discount schemes. As per the management, an increasing number of new paying subs have opted to stay with the premium channel bouquet offered during the initial months of free service; this bodes well for Dish TV's ARPUs in the near term.

However, we have been concerned about the aggressive pricing strategies being adopted by new players in an effort to capture market share. Sun Direct has started operations with an aggressive introductory offer of a STB and a bouquet of 75 channels for an upfront cost of Rs999 and monthly ARPU of Rs75 (additional Rs50 for add-on bouquets). This compares with an upfront investment of Rs3,000-5,000 and monthly ARPU of Rs100-350 for DTH services of extant operators, Dish TV and Tata-Sky. Also, Bharti and Reliance ADAG will likely use aggressive pricing strategies to break into the crowded market once they start their DTH services in 1QFY09E. In the face of strong competition, the extant operators will likely (1) increase subsidy on STBs, (2) offer more months of free service or (3) lower pricing of channel packages.

Net losses increased sharply due to higher content and marketing costs. 3QFY08 net loss at Rs1.16 bn was considerably higher than 2QFY08 net loss of Rs932 and our Rs890 mn estimate. Operating expenses increased 32% qoq despite steady staff costs and savings in administrative costs. The increase was largely due to higher cost of goods and services (including content costs), which increased sharply 39% qoq to Rs1.06 bn versus Rs761 mn in 2QFY08 and our Rs794 mn estimate. The company did not provide the precise breakup of its cost of goods and services but indicated that a large portion of the increase was due to higher content costs, a result of increased subscriber base and addition of news channel to the various Dish TV bouquets. We note that Dish TV added Star Cricket, an expensive but very popular sports channel, one music channel, two news channels and two movie channels to its various bouquets without any commensurate increase in price charged to its subscribers.

3QFY08 advertising and marketing expenses increased 54% and 23% qoq, respectively. Dish TV appointed a very popular film star as its brand ambassador and ran a massive advertisement campaign during the quarter; the new campaign necessitated certain one-time pre-operative and launch expenses. We expect the company to spend more aggressively on advertising and marketing and see this as a necessity in a competitive market.

Cut earnings estimates to factor in 3QFY08 results. We have further cut our FY2008E-2010E earnings estimates to factor in higher competition resulting in higher marketing costs. We will have to wait for the pricing strategies of the new entrants to understand the full implications on pricing and costs. We have made the following changes to our earnings model.

1. **Reduced revenues on more months of free service.** We assume that the extant operators will offer more months of free service for a longer period to fend off new competition and thus, increased the months of free service provided by Dish TV in FY2009E and FY2010E to 6 months (4 months previously) and 4 months (1 month), respectively. Our new FY2008E, FY2009E and FY2010E revenues estimates for Dish TV are Rs4.1 bn (Rs3.9 bn previously), Rs7.8 bn (Rs8.1 bn) and Rs13.5 bn (Rs14.1 bn). We expect the DTH operators to phase out their introductory promotional schemes after 4-6 quarters and our estimates for FY2011E and beyond remain largely unchanged.

2. **Increased costs to reflect more marketing-related expenses.** We expect a high degree of competition to also result in higher advertising and marketing spending for all DTH operators. We have revised our FY2008E, FY2009E and FY2010E advertising expenses to Rs0.73 bn (Rs0.55 bn previously), Rs0.79 mn (Rs0.55 bn) and Rs0.83 bn (Rs0.83 bn). We model Dish's FY2008E, FY2009E and FY2010E net loss at Rs4.0 bn (Rs3.5 bn previously), Rs4 bn (Rs3.1 bn) and Rs2.3 bn (Rs1.2 bn).

   Dish management stated that it is in discussions with broadcasters to move to unbundled (*a la carte*) channels from bouquets in line with a TRAI regulation in September 2007. We expect the ability of Dish TV to pick and choose channels to likely result in savings in content costs and greater traction in carriage fees. However, we have left our content cost estimates largely unchanged pending further progress and clarity by the management.

Valuation remains tricky; ARPUs to be determined by market dynamics. We note the valuation of Dish remains tricky given (1) the entry of multiple strong players with potentially aggressive pricing strategies, (2) lack of earnings/cash flows for the next few quarters and (3) very high sensitivity of DCF valuation to long-term ARPUs (see Exhibit 3). We like the business and expect DTH subscriber volumes to grow strongly over the next several years led by rising affordability. However, the increasing number of players makes forecasting very difficult in the short term, especially given the large losses being already incurred by the incumbents. We would wait to see the pricing strategy of new entrants before reviewing our view on the stock. Dish TV is also constrained by a weak balance sheet and its expansion plans may require it to raise substantial capital.

Dish TV consolidated interim results, March fiscal year-ends (Rs mn)

		qoq			yoy			yoy		
	2008E	3Q 2008	2Q 2008	% chg.	3Q 2008	3Q 2007	% chg.	9M 2008	9M 2007	% chg.
Net sales	**4,105**	**1,121**	**850**	***32***	**1,121**	**—**		**2,769**	**1,250**	***121***
DTH services	3,870	1,045	810	*29*	1,045	—		2,601	1,164	*124*
Trading	125	49	12	*296*	49	—		86	5	*1,665*
Teleport services	110	27	27	—	27	—		81	82	*(1)*
Total expenditure	**(6,116)**	**(1,762)**	**(1,336)**	***32***	**(1,762)**	**—**		**(4,373)**	**(2,485)**	***76***
Direct operating cost & connectivity	(2,775)	(1,058)	(761)	*39*	(1,058)	—		(2,517)	(1,552)	*62*
Advertisement expenses	(1,048)	(306)	(198)	*54*	(306)	—		(766)	(347)	*121*
Cost of goods sold	—	—	(13)	—	—	—		—	—	—
Staff cost	(295)	(74)	(72)	*2*	(74)	—		(215)	(97)	*122*
Administrative & other costs	(1,998)	(71)	(86)	*(17)*	(71)	—		(208)	(239)	*(13)*
Selling and distribution expenditure	—	(253)	(205)	*23*	(253)	—		(665)	(250)	*167*
EBITDA	**(2,011)**	**(642)**	**(486)**	***32***	**(642)**	**—**		**(1,604)**	**(1,234)**	***30***
EBITDA margin (%)	**(49.0)**	**(57.3)**	**(57.1)**	—	**(57.3)**	**—**		**(57.9)**	**(98.7)**	—
Other income	48	4	20	*(78)*	4	—		25	26	*(5)*
Interest	(439)	(135)	(110)	*23*	(135)	—		(324)	(24)	*1,274*
Depreciation and amortisation	(1,488)	(389)	(357)	*9*	(389)	—		(1,074)	(284)	*279*
Pretax profits	**(3,890)**	**(1,162)**	**(932)**	***25***	**(1,162)**	**—**		**(2,977)**	**(1,515)**	***96***
Extraordinaries	—	—	—	—	—	—		—	—	—
Current tax	—	(2)	(1)	*152*	(2)	—		(4)	(2)	*155*
Deferred tax	(63)	—	—	—	—	—		—	—	—
Net income	**(3,953)**	**(1,164)**	**(933)**	***25***	**(1,164)**	**—**		**(2,981)**	**(1,517)**	***97***
Tax rate (%)	(1.6)	(0.2)	(0.1)	—	(0.2)	—		(0.1)	—	—

Source: Company, Kotak Insitutional Equities estimates.

Our DCF-based target price for Dish TV is Rs75

Discounted cash flow analysis of Dish TV (Rs mn)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
EBITDA	**(2,011)**	**(1,117)**	**1,328**	**3,851**	**5,496**	**6,586**	**7,800**	**8,963**	**10,098**	**10,961**
Tax expense	—	—	—	—	(260)	(378)	(494)	(603)	(1,858)	(2,630)
Working capital changes	(2,178)	237	988	363	1,673	1,361	1,135	724	110	125
Cash flow from operations	**(4,189)**	**(880)**	**2,316**	**4,214**	**6,910**	**7,569**	**8,441**	**9,084**	**8,350**	**8,456**
Capital expenditure	(3,368)	(3,566)	(3,118)	(2,706)	(4,854)	(4,557)	(4,413)	(3,805)	(3,238)	(2,912)
Free cash flow to the firm	**(7,557)**	**(4,446)**	**(802)**	**1,507**	**2,056**	**3,012**	**4,028**	**5,279**	**5,112**	**5,544**

	Now	+ 1-year	+ 2-years
Total PV of free cash flow (a)	**1,462**	**11,818**	**20,182**
FCF one-year forward	5,877	6,229	6,603
Terminal value	83,955	88,993	94,332
PV of terminal value (b)	**24,216**	**25,669**	**27,209**
Total PV (a) + (b)	**25,678**	**37,486**	**47,391**
Net debt	1,638	5,013	10,298
Equity value	24,041	32,474	37,093
Equity value (US$ mn)	**531**	**812**	**963**
Shares outstanding (mn)	428	441	441
Equity value/per share (Rs)	**56**	**74**	**84**

Discount rate (%)	13.0
Growth from 2017 to perpetuity (%)	6.0
Exit free cash multiple (X)	14.3
Exit EBITDA multiple (X)	7.7

Source: Kotak Institutional Equities estimates.

Pricing has a more significant impact on valuation of Dish TV than volume

Sensitivity of Dish TV's valuation to number of subscribers and subscription fees

	DCF value (Rs/share)	Change from base case (%)
Change in # of paying subscribers (%)		
20%	91	24
10%	82	11
Base case	**74**	
-10%	65	(11)
-20%	57	(23)
Change in monthly subscription fees (%)		
20%	163	122
10%	119	61
Base case	**74**	
-10%	38	(49)

Source: Kotak Institutional Equities estimates.

Dish's subscribers will likely increase to over 5 mn by FY2010E and to 9 mn by FY2015E

Key financial and operating data of Dish TV, March fiscal year-ends, 2007-2017E

	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenues (Rs bn)	1.9	4.1	7.8	13.5	19.0	23.9	28.2	32.8	37.2	41.7	45.9
EBITDA (Rs bn)	(1.9)	(2.0)	(1.1)	1.3	3.9	5.5	6.6	7.8	9.0	10.1	11.0
EBITDA margin (%)	**(97.0)**	**(49.0)**	**(14.3)**	**9.9**	**20.2**	**23.0**	**23.4**	**23.8**	**24.1**	**24.2**	**23.9**
Year-end # of paying subscribers (mn)	**1.9**	**3.0**	**4.2**	**5.3**	**6.3**	**7.2**	**8.0**	**8.7**	**9.3**	**9.8**	**10.3**
Increase/(decrease) in number of subs	1.0	1.1	1.2	1.1	1.0	0.9	0.8	0.7	0.6	0.5	0.5
Average # of paying subscribers (mn)	1.4	2.4	3.6	4.7	5.8	6.7	7.6	8.3	9.0	9.5	10.0
Subscription fees per month (Rs/sub/month)	95	111	154	209	247	267	283	302	321	340	361
ARPU (Rs/sub/month)	**108**	**132**	**178**	**234**	**272**	**294**	**308**	**326**	**344**	**363**	**380**

Source: Kotak Institutional Equities estimates.

Profit model, balance sheet, cash model of Dish TV, March fiscal year-ends, 2006-2012E (Rs mn)

	2006	2007	2008E	2009E	2010E	2011E	2012E
Profit model							
Net revenues	315	1,909	4,105	7,806	13,467	19,042	23,900
EBITDA	**(830)**	**(1,852)**	**(2,011)**	**(1,117)**	**1,328**	**3,851**	**5,496**
Other income	—	34	48	58	63	59	54
Interest (expense)/income	(17)	(118)	(439)	(719)	(967)	(1,003)	(864)
Depreciation	(18)	(565)	(1,478)	(2,222)	(2,876)	(3,357)	(3,249)
Amortization	(10)	(10)	(10)	(10)	(10)	(10)	(10)
Pretax profits	**(875)**	**(2,511)**	**(3,890)**	**(4,010)**	**(2,462)**	**(461)**	**1,427**
Extraordinary items	(1,203)	(5)	—	—	—	—	—
Tax	—	(3)	—	—	—	—	(162)
Deferred taxation	—	—	(63)	5	143	278	125
Net income	**(2,078)**	**(2,519)**	**(3,953)**	**(4,005)**	**(2,320)**	**(182)**	**1,391**
Earnings per share (Rs)	**—**	**(5.9)**	**(9.0)**	**(9.1)**	**(5.2)**	**(0.4)**	**3.1**
Balance sheet							
Total equity	1,915	(395)	(2,972)	(6,977)	(8,172)	(8,354)	(6,964)
Deferred taxation liability	—	—	63	58	(85)	(363)	(488)
Total borrowings	84	1,751	5,494	10,744	12,244	11,494	9,494
Current liabilities	1,820	8,596	8,589	8,495	9,312	10,014	13,019
Total liabilities and equity	**3,819**	**9,952**	**11,173**	**12,320**	**13,299**	**12,790**	**15,061**
Cash	59	113	481	445	663	289	512
Other current assets	1,528	2,271	1,244	1,093	1,623	2,148	2,601
Total fixed assets	1,067	6,107	7,997	9,341	9,583	8,932	10,537
Intangible assets	75	516	506	496	486	476	466
Investments	1,089	945	945	945	945	945	945
Total assets	**3,819**	**9,952**	**11,173**	**12,320**	**13,299**	**12,790**	**15,061**
Free cash flow							
Operating cash flow, excl. working capital	(850)	(1,814)	(2,450)	(1,836)	361	2,848	4,470
Working capital changes	599	3,507	1,020	58	287	176	2,553
Capital expenditure	(1,025)	(2,921)	(3,368)	(3,566)	(3,118)	(2,706)	(4,854)
Investments	185	(451)	—	—	—	—	—
Other income	3	5	48	58	63	59	54
Free cash flow	**(1,088)**	**(1,674)**	**(4,750)**	**(5,286)**	**(2,407)**	**376**	**2,223**
Ratios (%)							
Debt/equity	4.4	(443.6)	(184.8)	(154.0)	(149.8)	(137.6)	(136.3)
Net debt/equity	1.3	(414.9)	(168.6)	(147.6)	(141.7)	(134.1)	(129.0)
ROAE (%)	(217.0)	(331.3)	239.2	81.5	30.6	2.1	(17.2)
ROACE (%)	**(89.6)**	**(283.2)**	**(178.0)**	**(102.6)**	**(36.1)**	**6.3**	**92.7**

Source: Kotak Institutional Equities estimates.

Pharmaceuticals

DISH.BO, Rs327	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	540
52W High -Low (Rs)	427 - 194
Market Cap (Rs bn)	26.6

Financials

March y/e	2006	2007E	2008E
Sales (Rs bn)	5.8	7.6	10.5
Net Profit (Rs bn)	0.9	1.2	1.8
EPS (Rs)	11.3	14.6	21.9
EPS gth	*80.4*	*29.1*	*50.7*
P/E (x)	29.0	22.5	14.9
EV/EBITDA (x)	22.9	15.1	10.8
Div yield (%)	0.0	0.0	0.0

Dishman Pharmaceuticals: On track to meet FY2008KSE despite lower margins

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- **3QFY08 revenues, 3% above expectations at Rs2 bn**
- **EBITDA margins at 19.3% - 4% lower than expectations due to increase in materials cost and one time charges**
- **PAT at Rs321 mn, 9% lower than estimates**
- **Dishman reiterates full year sales growth guidance of 25-30%**
- **One potential acquisition in CRAMS space of US$20-25 mn likely**
- **Maintain BUY rating with a SOTP-based target price of Rs540**

Dishman reported revenues at Rs2 bn, 3% above expectations driven by CRAMS and Carbogen Amcis revenue expansion. However PAT and EBITDA margin were 9% and 4% lower than forecast. Dishman trades at 22.5X FY2008E and 14.9X FY2009E earnings. Maintain BUY rating with a SOTP-based target price of Rs540. F2009E and F2010E estimates are unchanged. F2008E KSE PAT increased to reflect YTD performance.

3QFY08 revenues were 3% above KSE at Rs2 bn driven by CRAMS. Revenues grew 21% yoy in rupee terms to touch Rs2 bn. The growth was driven by CRAMS revenues which beat estimates by 13%. Carbogen Amcis and Vitamin D business reported revenues of Rs829mn (24CHF mn) and Rs104 mn respectively. Quarterly revenues were disclosed for the first time for these segments. Dishman reported around Rs87 mn of revenues resulting from a one-time opportunity which was neither CRAMS nor API business.

EBITDA margins at 19.3% - 4% lower than KSE. Margins were lower due to (1) procurement of raw materials from China of about Rs350 mn which led to an increase in raw materials. Management clarified that this is one-time in nature not likely to be repeated next quarter (2) one- time write-offs of around Rs40 mn. This is related to international subsidiaries though the exact nature of expenses was not clarified. Management believes that a part of this charge may reversed in 4Q FY2008E (3) increase in personnel costs due to higher costs incurred in Netherlands and Saudi Arabia. This is a permanent addition to expenses due to higher headcount. We have adjusted our FY2009E and FY2010E for this.

PAT at Rs321 mn, 9% lower than estimates despite higher other income and lower tax. Dishman reported other income of Rs125 mn comprising Rs104 mn of forex gain vs. estimate of Rs100mn. Tax rate at 6.4% was lower than estimate of 10% and lower than previous quarter due to tax incentives available for EOUs, MAT credit and no tax applicable on Carbogen Amcis revenues.

Strong operating performance likely for 4QFY08E. We expect 4QFY08E revenues to grow 3% yoy to Rs2.1 bn and EBITDA margins to expand qoq to 23% due to lower material costs. We have not built in any write down or write back related to international subsidiaries. We continue to forecast fx gains and other income of Rs100 mn for the coming quarter. As a result, we expect PAT of Rs380 mn for the quarter. A year ago, it reported PAT of Rs408m. This YoY decline at PAT level is due to reversal of tax following acquisition of CA that benefited numbers. At PBT level, we expect YoY growth of 20%.

Company reiterates full year guidance. For FY2008E, Dishman expects sales growth of 25-30%. For next year, the company expects sales to be driven by (1) 35% growth on existing businesses, (2) 15% growth in Carbogen Amcis, (3) from growth in Vitamin D business (annual run rate of of Euro16 mn) and (4) growth from Solvay contract. Solvay has increased esprosartan order by 3 times and the dedicated plant set up for Solvay is already running at full capacity. We have modeled revenue growth of 34% for FY2008E and 35% for FY2009E.

Update on new businesses. (1)Dishman's plant in China is on track and should commence production in 2HFY09E. We have modeled US$5 mn from sales in China for FY2009E (2) Revenues from Middle East JV will start in 2010. (3) Dishman Japan will be operational in 2008 and (4) the UK plant is fully operational and is expected to turn around with a profit of US$1 mn in FY2009E.

A potential acquisition of US$20-25 mn likely. Dishman is looking at one potential acquisition of US$20-25 mn in the CRAMS space. The target company specializes in chiral chemistry and like Carbogen Amcis has contracts for products in different stages. The company has provided commercial quantities for 7 phase III products. Dishman will put in its bid for the company in Feb 2008.

Interim results- Dishman , March fiscal year-ends (Rs mn)

	3QFY07	2QFY08	3QFY08	3QFY08 KSE	Growth (%, yoy)	Growth (%, qoq)	Chg (% vs. KSE)
Net sales	**1,711**	**1,866**	**2,066**	**2,014**	**21**	**11**	**3**
Change in stock	25	(119)	(19)	(131)	NM	NM	NM
Consumption of raw ma	360	783	790	846	120	1	(7)
Personnel cost	479	462	547	483	14	18	13
Other expenses	360	335	349	352	(3)	4	(1)
Total Expenditure	**1,223**	**1,461**	**1,667**	**1,551**	**36**	**14**	**7**
EBITDA	**488**	**405**	**399**	**463**	**(18)**	**(2)**	**(14)**
Other income	29	91	125	100	328	37	25
Interest	67	72	77	50	14	7	53
Depreciation	156	111	104	120	(33)	(6)	(13)
PBT	**295**	**314**	**343**	**393**	**16**	**9**	(13)
Tax	50	32	22	39	(56)	(32)	(44)
PAT	**244**	**282**	**321**	**354**	**31**	**14**	**(9)**
CRAMS	1,419	1,403	1,550	1,369	**9**	**10**	**13**
Marketable molecules	292	463	429	645	47	(7)	(33)
Others	—	—	87	—	NM	NM	NM
Total	**1,711**	**1,866**	**2,066**	**2,014**	**21**	**11**	**3**

Source: Company data, Kotak Institutional Equities.

Forecasts and valuation, March fiscal year-ends, 2006-2010E

	Net Revenue		EBITDA		Net Profit		EPS	ROCE	ROE	P/E
	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs)	(%)	(%)	(X)
2006	2,774	47.1	648	25.5	508	58.1	6.3	13.5	30.3	52.3
2007	5,786	108.5	1,151	77.6	917	80.4	11.3	12.7	36.2	29.0
2008E	7,760	34.1	1,577	37.0	1,180	28.7	14.5	11.0	22.8	22.5
2009E	10,531	35.7	2,599	64.8	1,784	51.2	21.9	16.4	22.4	14.9
2010E	13,496	28.2	3,603	38.6	2,553	43.1	31.4	20.7	25.8	10.4

Source: Company data, Kotak Institutional Equities.

Transmission

JYTS.BO, Rs256	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	275
52W High -Low (Rs)	328 - 152
Market Cap (Rs bn)	21.2

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	10.3	15.1	18.3
Net Profit (Rs bn)	0.5	0.9	1.1
EPS (Rs)	6.6	10.7	13.1
EPS gth	*81.2*	*61.1*	*23.0*
P/E (x)	38.7	24.0	19.5
EV/EBITDA (x)	17.8	12.8	10.7
Div yield (%)	0.2	0.2	0.2

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	27.1	-	-
FIIs	27.4	0.1	0.1
MFs	11.8	0.2	0.2
UTI	4.3	0.4	0.4
LIC	-	-	-

Jyoti Structures: 3QFY08 results: Subdued set of numbers; maintain estimates, TP and ADD rating

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- **Jyoti Structures (JSL) reported net income of Rs202 mn, up 16% yoy. Earnings growth was its lowest over last many quarters**
- **EBITDA margins, at 12.7% (inline with estimates) seemed lower on yoy basis following stellar performance at operating level in same quarter last year**
- **We expect revenues to grow at CAGR of 33.6% over FY2007-09 and net earnings to grow 50% over the same period following higher order flows from Powergrid and higher Rural Electrification jobs**
- **We retain our earnings estimates, target price of Rs275/ share and ADD rating on the stock**

Jyoti Structures (JSL), in its 3QFY08 results reported a PAT of Rs202 mn, highest absolute reported numbers ever reported, but up just 16% on yoy basis. Revenue, at Rs3.5 bn, grew by 34% and EBITDA margins (at 12.7%) were lower on yoy basis following stellar performance in last quarter. The closing backlog at Rs31 bn (higher than what we had estimated earlier) would ensure a significant growth in revenues over the next two years. We maintain our ADD rating on JSL and SOTP-based target price up to Rs275/ share.

EBITDA margins for the quarter were lower by 126 bps on yoy basis. Margins for the current quarter were lower following stellar performance at operating level in the same quarter last year. We expect margins to stay at current levels going forward as (a) Operating leverage pushes in higher margins in old orders already accepted and (b) we expect new orders to flow-in at higher operating margins.

Order backlog at Rs31bn continues to stay strong. JSL's order-backlog stands at Rs24 bn, 40% higher than outstanding backlog at start of year. In addition, a large part of backlog (25%) consists of distribution projects, which are of lower gestation, and hence would speed up execution time.

We expect revenues to grow at CAGR of 45% over FY2007-09. Our comfort stems from high order backlog as well as reasonably clear spending plans from Powergrid. Besides, the stated order-backlog does not include a probable order from Reliance Energy Transmissions; which Jyoti was pretty confident of receiving.

We now build Gulf-jyoti in valuations. Jyoti has booked an order from Dubai Electric and Water agency (DEWA) under its standalone entity, the construction work of which it intends to undertake in the Gulf-jyoti joint venture. Jyoti Structures will own 30% equity in the joint venture, besides charging a 15% of net earnings for managing the plant. Accordingly, our SOTP-based target price now includes value of jyoti's stake in the JV based on 45% profit sharing.

We retain our SOTP-based target price. We retain our target price at Rs275/share**.** We now value Jyoti's stake in Gulf-Jyoti JV as part of our SOTP-based valuation—which comprises of Rs7 of Gulf-Jyoti stake and Rs290 of standalone business of JSL. At target price, the stock would trade at 19X FY2009E earnings. We maintain an ADD rating on the stock.

Jyoti structures, Interim results, March fiscal-year ends (Rs mn)

	3Q 2008	3Q 2007	Yoy growth (%)	3Q 2008	2Q 2008	QoQ growth (%)	2008E	2007	Yoy growth (%)
Revenue	**3,455**	**2,572**	**34.4**	**3,455**	**3,182**	**8.6**	**15,835**	**9,708**	**63.1**
Expenditure	**(3,018)**	**(2,213)**		**(3,018)**	**(2,783)**		**(13,919)**	**(8,454)**	
Stock adjustment	51	(89)		51	22		-	-	
Raw materials	(2,757)	(1,490)		(2,757)	(2,037)		(9,976)	(5,882)	
Staff costs	(88)	(64)		(88)	(90)		(293)	(267)	
Other expenditure	(224)	(572)		(224)	(678)		(3,650)	(2,306)	
EBITDA	**438**	**358**	**22.2**	**438**	**398**	**9.9**	**1,916**	**1,254**	**52.8**
OPM (%)	*12.7*	*13.9*		*12.7*	*12.5*		*12.1*	*12.9*	
Other income	4	3		4	4		10	8	
Depreciation	(17)	(15)		(17)	(16)		(66)	(58)	
EBIT	425	346		425	386		1,860	1,204	
Interest costs	(105)	(77)		(105)	(106)		(384)	(329)	
PBT	320	269		320	280		1,476	875	
Taxes	(118)	(95)		(118)	(111)		(509)	(325)	
PAT	**202**	**174**	**16.0**	**202**	**170**	**18.9**	**967**	**550**	**75.8**
Calculations (%)									
Raw material to revenue	78.3	61.4		78.3	63.3		63.0	60.6	
Total costs to revenue	87.3	86.1		87.3	87.5		87.9	87.1	
Effective tax rate	37.0	35.3		37.0	39.5		34.5	37.1	

Source: Company data, Kotak Institutional Equities estimates

Jyoti Structures, SOTP, March fiscal year-ends, 2009E basis (Rs mn) **82.85**

	EBITDA (Rs mn)	Multiple (X)	EV (Rs mn)	Value (Rs/share)	Comments
Standalone power transmission business	2,352	10.2	24,038	290	Based on 35% discount to EECU [a]
Stake in Gulf jyoti			580	7	Based on DCF-to-firm
Enterprise value			**24,618**	**297**	
Net debt			1,864	22	Based on current net debt
Market capitailzation			**22,754**	**275**	
Target price (Rs)				**275**	

Jyoti Structures, Income statement, March fiscal year-ends, 2006-10E (Rs mn)

	2006	2007E	2008E	2009E	2010E
Net revenues	**6,978**	**9,708**	**15,835**	**20,276**	**22,626**
Expenditure	**(6,230)**	**(8,454)**	**(13,919)**	**(17,924)**	**(20,115)**
Raw materials	(4,261)	(5,882)	(9,976)	(12,673)	(14,028)
Employee expenses	(185)	(267)	(293)	(322)	(355)
Other expenditure	(1,784)	(2,306)	(3,650)	(4,929)	(5,732)
EBITDA	**748**	**1,254**	**1,916**	**2,352**	**2,512**
Non-operating income	21	8	10	10	10
Depreciation	(48)	(58)	(66)	(75)	(85)
EBIT	720	1,204	1,860	2,287	2,436
Interest expenses	(258)	(329)	(384)	(395)	(290)
Adjusted pre-tax profits	462	875	1,476	1,892	2,147
Unusual or infrequent items	-	-	-	-	-
Reported pre-tax profits	**462**	**875**	**1,476**	**1,892**	**2,147**
Taxes	(185)	(325)	(509)	(653)	(741)
Reported net income	**277**	**550**	**967**	**1,239**	**1,406**
Adjusted net income	**277**	**550**	**967**	**1,239**	**1,406**
EPS (Rs), based on weighted average shares	4.0	7.3	12.0	15.2	17.0
EPS (Rs), based on fully diluted shares	**3.3**	**6.6**	**11.7**	**15.0**	**17.0**
Year-end shares outstanding (mn)	69.1	80.7	80.7	82.9	82.9
Weighted average shares outstanding (mn)	69.1	74.9	80.7	81.8	82.9
Fully diluted shares outstanding (mn)	82.9	82.9	82.9	82.9	82.9
Ratios (%)					
Effective tax rate	40.1	37.1	34.5	34.5	34.5
EBITDA margins	10.7	12.9	12.1	11.6	11.1
EBIT margins	10.3	12.4	11.7	11.3	10.8
DPS (Rs)					
Growth (%)					
Revenue					
EBITDA					
Adjusted net earnings					
Fully diluted EPS					

Jyoti Structures, Balance sheet, March fiscal year-ends, 2006-10E (Rs mn)

	2006	2,007	2008E	2009E	2010E
Equity capital	138	161	161	166	166
Reserves and surplus	1,078	2,597	3,481	4,637	5,960
Deferred tax liability	78	77	77	77	77
Total Equity	**1,294**	**2,835**	**3,719**	**4,880**	**6,203**
Secured loans	1,203	1,515	1,816	1,612	862
Unsecured loans	406	80	80	80	80
Total borrowings	**1,609**	**1,595**	**1,896**	**1,692**	**942**
Current liabilities	2,699	2,803	4,502	5,658	6,269
Total capital	**5,602**	**7,233**	**10,117**	**12,229**	**13,414**
Cash	38	92	32	42	80
Inventory	1,213	763	1,302	1,667	1,860
Debtors	2,487	3,635	5,857	7,500	8,369
Other current assets	1,150	1,970	1,970	1,970	1,970
Total current assets	**4,889**	**6,461**	**9,161**	**11,178**	**12,278**
Gross block	853	936	1,086	1,236	1,386
Less: Depreciation	(322)	(375)	(440)	(516)	(601)
Net block	531	561	646	720	785
Add: Capital work-in-process	15	2	2	2	2
Total fixed assets	**546**	**563**	**648**	**722**	**787**
Investments	166	185	285	305	325
Miscellaneous expenditure	-	24	24	24	24
Total assets	**5,601**	**7,233**	**10,117**	**12,229**	**13,414**
Ratios (%)					
Debt/equity	124.4	56.3	51.0	34.7	15.2
Debt/capitalization	55.4	36.0	33.8	25.7	13.2
Net debt/equity	121.4	53.0	50.1	33.8	13.9
Net debt/capitalization	54.8	34.6	33.4	25.3	12.2

Jyoti Structures, Cash flow statement, March fiscal year-ends, 2005-2010E (Rs mn)

	2006	2007	2008E	2009E	2010E
Operating					
Pre-tax profits and ex-od	440	875	1,476	1,892	2,147
Depreciation & amort	57	58	66	75	85
Taxes paid	(181)	(334)	(509)	(653)	(741)
Dividend and OI	-	-	-	-	-
Interest expense	259	329	384	395	290
Interest paid	(259)	(329)	(384)	(395)	(290)
FX (Gain) / loss	-	-	-	-	-
Ex-od (incl prior period)	(13)	79	-	-	-
Other non-cash items	16	(5)	-	-	-
WC changes	(674)	(1,395)	(1,061)	(852)	(451)
Cash flow from operations	**(355)**	**(722)**	**(28)**	**463**	**1,041**
Operating, excl. WC	**319**	**674**	**1,033**	**1,315**	**1,491**
Investing					
Capex	(144)	(84)	(150)	(150)	(150)
(Pur)/Sale of bussiness	-	-	-	-	-
(Pur)/Sale of invts	(78)	(68)	(100)	(20)	(20)
Advances to subsidiary	-	-	-	-	-
Interest/dividend recd	-	-	-	-	-
Cash flow from investing	**(222)**	**(152)**	**(250)**	**(170)**	**(170)**
Financing					
Equity capital issues	15	1,019	-	-	-
Net from borrowings	458	(43)	300	(200)	(750)
Effect of FX changes	-	-			
Dividends paid (incl. tax)	(31)	(48)	(83)	(83)	(83)
Others	-	-			
Cash flow from financing	**442**	**928**	**217**	**(283)**	**(833)**
Net chg in CCE	(135)	54	(61)	10	38
Beginning cash	175	39	93	32	42
Ending cash	**39**	**93**	**32**	**42**	**80**

Industrials

SUZL.BO, Rs339	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	450
52W High -Low (Rs)	460 - 186
Market Cap (Rs bn)	511.3

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	79.9	131.9	192.0
Net Profit (Rs bn)	8.6	11.9	21.7
EPS (Rs)	6.0	7.9	13.8
EPS gth	*14.2*	*31.8*	*74.8*
P/E (x)	56.4	42.8	24.5
EV/EBITDA (x)	38.6	26.6	17.1
Div yield (%)	0.3	1.5	1.5

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	69.0	-	-
FIIs	21.3	1.0	(0.0)
MFs	1.8	0.5	(0.5)
UTI	-	-	(1.0)
LIC	-	-	(1.0)

Suzlon Energy: Wind energy gathers momentum globally; bodes well for Suzlon

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- **Multibrid, Areva's subsidiary, wins 400 MW of offshore orders ' offshore comes of age, and Areva may exit Repower facilitating consolidation**
- **European Union targets about 20% of overall energy consumption from renewable sources by 2020**
- **Robust order inflows for Repower in CY2007**
- **Goldwind, China's leading wind power equipment supplier, trading at significantly higher valuation multiples, highlight premium on the fast growing wind power equipment business**

Three key developments highlight that wind power is gathering momentum globally and is likely to bode well for Suzlon (1) Multibrid, Areva's subsidiary, has won a large offshore order, indicating growing traction in the offshore segment as well as likelihood that Areva would exit Repower, facilitating consolidation for Suzlon. (2) EU has targeted about 20% of overall energy consumption from renewable sources by the year 2020, likely providing a boost to the wind-power industry as well as goad other countries to enact similar legislation. (3) Xinjiang Goldwind, China's leading wind-equipment supplier, valuation post-IPO highlights premium placed on players in the growing wind power equipment industry. We maintain our estimates as well as our ADD rating on the stock with a target price of Rs450/share.

Multibrid, Areva's subsidiary, wins 400 MW of offshore turbine orders – Offshore segment comes of age and Areva may have lower interest in holding onto Repower

Multibrid, a subsidiary of Areva (51% stake bought in October 2007), has secured an order to supply 80 nos of 5 MW offshore wind turbines. The order, worth Euro500 mn, is to be completed over CY2010-2011. We believe this order has several important implications

Areva is playing wind market through Multibrid. It is an indicator that Areva is building its wind power ambitions through Multibrid and thus is more likely to exit Repower, facilitating Suzlon in consolidating its acquisition of Repower. Interestingly, order has been placed on Areva and it is supposed to be delivered through its subsidiary Multibrid, probably because of higher technical and financial strength of Area.

Offshore segment comes of age. Mega order highlights that offshore has come of age and customers are now planning large offshore wind farms, particularly in Europe. Offshore wind power potential is several times that of onshore potential thus opening a large new dimension of wind power equipment demand. Offshore segment could catalyse wind power equipment demand even from countries such as Denmark that have utilized most of onshore potential.

Vindicates Suzlon's repower acquisition. We believe that recent momentum in offshore segment vindicates Suzlon's strategy of acquiring Repower as Repower has strong products in this segment. Suzlon stand to benefit immensely through Repower, if global momentum develops in the offshore segment (Exhibit 1).

Competition is ramping up. We believe that this order highlights that with the growing market, competition is increasing in the wind power segment. Several large global power equipment players have ambitions in the wind power segment such as Areva, Alstom, Siemens etc.

European Union's proposed directive targets about 20% of overall energy consumption from renewables by 2020 – highlight long-term development potential for wind power

European Union (EU) has targeted about 20% of overall energy consumption from renewable sources by the year 2020. Each member state has been mandated to increase its share of renewable energy - such as solar, wind or hydro - to boost the EU's share from 8.5% currently to 20% by 2020 (Exhibit 2). To ensure steady progress towards the 2020 goal, a series of interim targets have also been specified. Each EU country will decide its preferred 'mix' of renewables and will finalize its strategy by FY2010. We highlight that such a broad and long term legislation would

Strengthen wind power equipment demand. EU directive is likely to boost wind power equipment demand as wind is arguably the most competitive form of renewable energy available today as hydro-power potential may likely be limited by physical, environmental constraints and solar-power technology is not currently expensive.

Goad other countries into enacting similar legislation. Such legislation from EU may be followed by similar legislation in other countries, as they face increasing pressure from energy security and environmental concerns, providing further growth momentum to the global wind-power industry.

Robust order inflows for Repower in CY2007

Repower had robust order inflows in CY2007 – we estimate major order inflows of about 1,434 MW (Exhibit 3), both for onshore and offshore wind turbines. We highlight that Suzlon plans to expand Repower's capacity to 1,700 MW by 2008 (from 1,200 MW), by leveraging Suzlon's integrated supply chain. We note that Suzlon could add substantial value to Repower through (1) leveraging of Suzlon's vertically integrated low-cost manufacturing base for relieving Repower's component constraints and (2) Suzlon's global presence for Repower's offshore turbines as well.

Goldwind, China's leading wind power equipment supplier, trades at significantly higher valuation multiples post-IPO

We highlight a significant difference in the valuation multiples of Suzlon and Xinjiang Goldwind, China's leading wind-equipment supplier. We highlight that (a) Goldwind is significantly smaller than Suzlon in current revenue terms (about 1/3rd) and (b) its product range is inferior and (c) very little global presence compared to that of Suzlon.

Goldwind's market share is about 33% in China market and it is estimated to have shipped about 800 MW in CY2007 (Suzlon has about 50% market share in India and is the fifth largest supplier globally; we estimate it to sell about 2,370 MW in FY2008E). Goldwind's flagship model is the 750 KW turbines and it has only recently added 1.5 MW gearless turbines to its portfolio. Suzlon's flagship models are 1.25 MW, 1.5 MW and 2.1 MW currently. We highlight that Goldwind is currently trading at a P/E multiple of about 70X based on CY2008E consensus estimates from Bloomberg, while Suzlon is trading at about 25X its FY2009E earnings (Exhibit 4). We also highlight that Suzlon's P/E multiples are broadly in line with that of its global competitors in-spite of relatively stronger growth (Exhibit 5).

Maintain estimates, target price (Rs450/share) and ADD rating

We maintain our estimates as well as our target price of Rs450/share for Suzlon. We reiterate our ADD rating led by (a) global momentum in wind power equipment demand, (c) strong platform in terms of breadth and depth of manufacturing, marketing and R&D capabilities and (d) significant expansion in vertically integrated capacity that creates opportunities for Suzlon to gain market share in a strong growth market.

Key downside risks arise from (1) rupee appreciation, (2) supply chain constraints (that continue to confront the industry globally) hindering execution, (3) delays in execution of the large capacity expansion plans, across Suzlon, Hansen and Repower, (4) emergence of competitors (attracted by the high equity returns), especially from low-cost manufacturing countries like China and (5) new technologies, like gearless wind-turbines, becoming more competitive.

Exhibit 1: Offshore wind-power capacity additions are expected to increase significantly

Forecast of wind power development in the offshore segment, 2007-11 (MW)

	Cumulative capacity by end of 2006	Capacity installed in 2006	Forecast for capacity installation (only Offshore)					Capacity installed during 2007-11	Cumulative capacity by end of 2011
	2006	2006	2007	2008	2009	2010	2011	Sum	Accumulated
Total Europe	**877**	**198**	**200**	**180**	**1,305**	**2,265**	**2,000**	**5,950**	**6,827**
Belgium	0	0				100		100	100
Denmark	398	0			215	215		430	828
France	0	0			105			105	105
Germany	0	0			60	740	800	1,600	1,600
Ireland	25	0						0	25
Netherlands	127	108			120		200	320	447
Norway	0	0				200	200	400	400
Spain	0	0				200		200	200
Sweden	23	0	110		165	150	300	725	748
UK	304	90	90	180	640	660	500	2,070	2,374
Total Others	**0**	**0**	**0**	**0**	**50**	**100**	**630**	**780**	**780**
Canada	0	0						0	0
USA	0	0					430	430	430
Others (Asia)	0	0			50	100	200	350	350
Total World	**877**	**198**	**200**	**180**	**1,355**	**2,365**	**2,630**	**6,730**	**7,607**
Offshore's global share (% of MW)			**1.1%**	**0.8%**	**5.3%**	**8.2%**	**7.9%**	**5.0%**	**4.0%**
Accumulated capacity	**877**		**1,077**	**1,257**	**2,612**	**4,977**	**7,607**		

Source: BTM Consult ApS - March 2007

Exhibit 2. EU is targeting 20% share of renewables by 2020 and each country has been mandated a target

Renewable target share for EU countries

Member State	Share of renewables in 2005	Share required by 2020
Austria	23.30%	34%
Belgium	2.20%	13%
Bulgaria	9.40%	16%
Cyprus	2.90%	13%
Czech Republic	6.10%	13%
Denmark	17%	30%
Estonia	18%	25%
Finland	28.50%	38%
France	10.30%	23%
Germany	5.80%	18%
Greece	6.90%	18%
Hungary	4.30%	13%
Ireland	3.10%	16%
Italy	5.20%	17%
Latvia	34.90%	42%
Lithuania	15%	23%
Luxembourg	0.90%	11%
Malta	0%	10%
The Netherlands	2.40%	14%
Poland	7.20%	15%
Portugal	20.50%	31%
Romania	17.80%	24%
Slovak Republic	6.70%	14%
Slovenia	16%	25%
Spain	8.70%	20%
Sweden	39.80%	49%
United Kingdom	1.30%	15%

Source: News reports.

Exhibit 3. Order inflows for Repower have been robust in CY2007

Major orders booked by Repower in CY2007

Announcement date	Customer	Capacity (MW)	Configuration	Delivery schedule (MW)		
20-Dec-07	Energiekontor AG	90	18X 5 MW		90	
20-Dec-07	EDF Energies Nouvelles	400 [1]	200X 2 MW		200	200
19-Dec-07	Eolfi, France	168	84X 2 MW		100	68
19-Dec-07	Scottish and Southern Energy, UK	138	69X 2 MW	20	100	18
22-Nov-07	Cascade Wind Holdings, LLC	50	25X 2 MW	50		
12-Oct-07	Consortium of Guohua Energy Investment Co. Ltd	76 [2]		40	36	
7-Aug-07	EPURON GmbH	160	80X 2 MW	60	50	50
18-Jul-07	Portuguese Government	80 [3]		16	16	16
12-Apr-07	enXco Inc	150	75X 2 MW	80	70	
26-Mar-07	Airtricity	30	15X 2 MW	14		
28-Feb-07	EDF Energies Nouvelles, France	92	46X 2 MW	40		
	Total	**1,434**		**320**	**662**	**352**

Note:

(1) Option for a further 290 MW.

(2) Estimated share of Repower in an order for 150 MW won by a JV. Option for a further 150 MW.

(3) Estimated share of Repower in an order for 400 MW won by a consortium.

Source: Company data, Kotak Institutional equities estimates.

Exhibit 4. Significant differentials exist between the valuation comps of Suzlon and Goldwind
Comparison of valuation of Suzlon and Goldwind, (Rs mn)

	Revenues (Rs bn)			EBITDA (Rs bn)			EPS (Rs)			P/E (X)			EV/EBITDA (X)			EV/Sales (X)			OPM (%)			EPS CAGR (%
Company	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E	2008E-10E
Suzlon	131.9	192.0	238.0	21.4	32.4	44.1	7.9	13.8	18.9	42.8	24.5	18.0	27.1	17.2	12.8	4.4	2.9	2.4	16.3	16.9	18.5	147.3
Xinjiang Goldwind	17.8	31.7	40.6	3.4	5.1	6.6	6.6	9.8	11.5	104.2	69.8	59.6	102.5	67.3	52.5	19.4	10.9	8.5	18.9	16.2	16.2	74.8

Note:
(1) 2008E for Suzlon is March fiscal year-end while for Goldwind it is calendar year-end 2007 and so on.
(2) Exchange rate assumed at 1CNY = 5.5 INR.
(3) Goldwind figures are bloomberg consensus estimates.

Source: Bloomberg, Kotak Institutional Equities

Exhibit 5. Comparison of wind power companies (Euro)

Company	Price (Euro)	Mcap (Mn Euro)	Sales (Mn Euro)	EPS (Euro)			PER (X)			EV/EBIDTA (X)		
			2007E	2007E	2008E	2009E	2007E	2008E	2009E	2007E	2008E	2009E
Vestas	64.2	11,885	3,854	0.6	1.3	2.3	105.2	50.3	28.0	40.4	22.7	14.5
Gamesa	25.7	6,241	2,390	1.3	1.0	1.3	19.9	25.0	20.3	16.9	14.1	11.5
Nordex	27.5	1,838	514	0.2	0.6	1.1	130.9	42.5	25.2	56.5	27.5	16.5
RePower	136.9	1,231	459	0.9	2.2	5.1	147.2	60.9	26.7	68.3	30.8	14.7
Suzlon	**338.9**	**8,643**	**1,417**	**6.0**	**7.9**	**13.8**	**56.4**	**42.8**	**24.5**	**39.6**	**27.1**	**17.2**

Note: Suzlon's market price and EPS are in INR, while mkt cap and sales are converted into Euros

Source: Bloomberg, Kotak Insttutional Equities estimates.

Economy

Sector coverage view	N/A

Headline inflation may rise to 4.5% by mid-Feb, but fall back to 4.2% by end of FY2008

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- **Headline inflation rises to 3.83%, but in line with our and market expectations**
- **Prices of non-food primary articles, non-administered fuel putting inflationary pressures**
- **We expect inflation rate to climb to 4.5% by mid-Feb '08, decline to 4.2% by end of FY2008, before climbing back to 5.0% or more in the second half of FY2009**
- **Headline inflation increases to 3.83% for week-ended Jan.12, 2008 from 3.79% a week ago**

Headline inflation rate measured by yoy change in WPI increased for the third week in succession to 3.83% from 3.45% about a month ago. The increase this week was partly on account of base effects and partly due to price rise in non-food primary articles. Analysis of the recent inflation data shows:

- Overall inflation rate as well as the inflation rates of the major groups – primary articles, fuel, power, light and lubricants (FPLL) have converged in 3.7-3.9% band after a decline in inflation rate for primary articles (due mainly to its food component) and an increase in the rate for FPLL (exhibit 1).
- Food prices declined marginally over the week, but food inflation (yoy) increased marginally on account of base effects.
- Price pressures in non-food primary articles have been felt for some time now, with prices staying at elevated levels ever since 2QFY08. Inflation (yoy) under the head increased to 8.90% from 8.49% in the previous week, but this inflation rate is still almost half of what it was at the start of FY2008.
- Inflation for FPLL remained steady at 3.66%. Inflation under this head has risen from (-) 0.18% at end-Nov.'07. The pressure has come from increase in prices of fuels whose prices are not administered. Though these fuels constitute only about 18% of the mineral oils or less than a tenth of the FPLL component, the prices of these have been increased by 10-17% since end-Nov.'07.
- Manufacturing goods prices increased marginally over the week and its inflation rate increased to 3.91% from 3.74%. In recent weeks inflation under this head has risen due to base effects and rise in prices of edible oils.
- Considering the above, we believe that the recent increase in inflation rate is not due to any perceptible demand side pressures.
- There were data revisions to the past few weeks' data under this head, but it did not change the overall numbers significantly.

CPI Inflation continue to fall, though trend could reverse in 4QFY08

Data released earlier this week in respect of two of the four CPI indices show that consumer prices and consumer price inflation has continued to fall. CPI inflation for agricultural laborers fell to 5.90% in Dec.'07 from 6.15% in the preceding month. CPI inflation for rural laborers fell to 5.63% from 5.88%. The inflation under these heads was running at over 9.0% at the start of FY2008 (exhibit 2).

We expect headline inflation at end of FY2008 to be contained at around 4.0-4.5%

We stand by our assessment that headline inflation rate would be contained in 4.0-4.5% band. We expect inflation rate to jump to near 4.5% by mid-February before softening to around 4.2% by end of FY2008. However, CPI inflation could reverse course in 4QFY08 and rise from here.

In our Economy report of November 5, 2007 titled: "Indian story to continue", we had forecasted headline inflation in the range of 4.0-4.5% in spite of the RBI coming out with an inflation projection of 5.0% at the same point of time. We had said that the Indian central bank was unduly cautious on its inflation assessment, perhaps camouflaging its move not to cut interest rates at a time when asset price inflation was its main concern in framing its monetary policy response.

Headline inflation expected to be above 5.0% in 2HFY2009

Based on the current information set, we expect headline inflation to fall to 4.0% or less by end-April 2008, but rise steadily from there. The headline inflation could still average below 5.0% in 1HFY2009, but climb to 5.0% in 2HFY2009. There are significant upside risks to these projections in the form of supply side shocks arising from transmission from the rest of the world in food, oil and non-oil commodities and in the event risk of below normal monsoon in 2009.

If the unlikely event of significant increase in domestic oil prices (especially diesel as it has large second round impact) does occur over an horizon of a month or two, inflation could rise to around 5.0% in 1HFY2008 itself. However, due to political compulsions, we expect domestic price increases to be only marginal and these have been factored in our assessment.

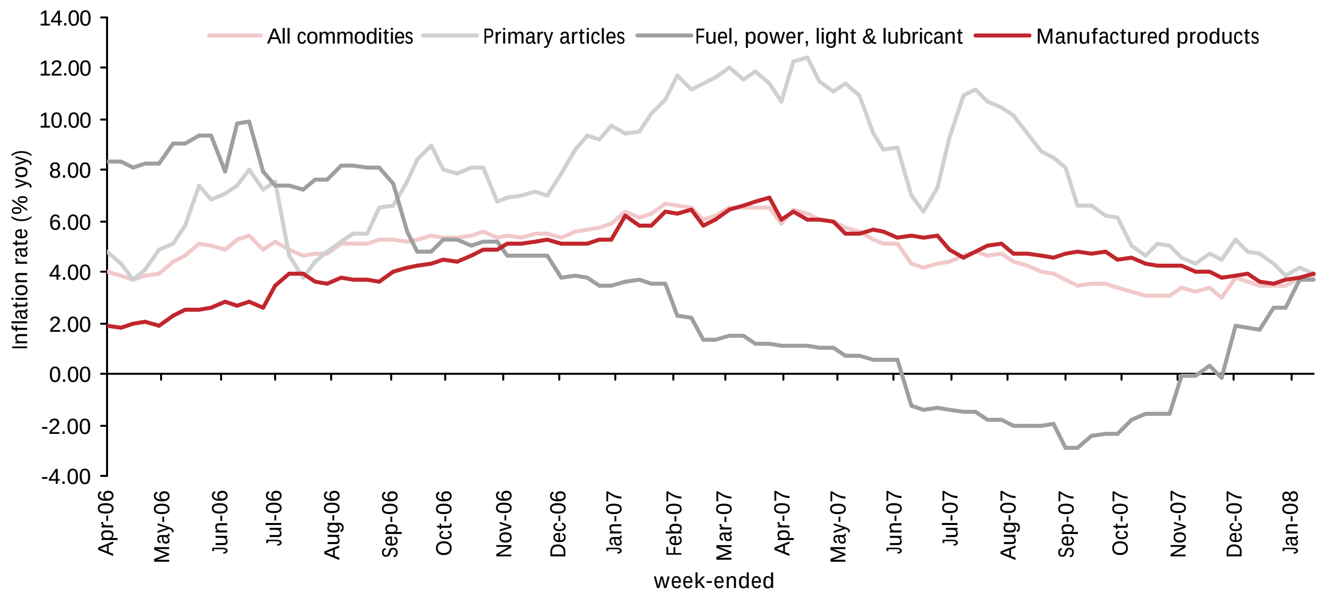
We do not see any significant demand side pressures in spite of continuing investment boom as fresh capacities are expected to come into stream.

Current inflation trends should provide comfort to the central bank

We believe that the current inflation trends should provide comfort to the central bank, which has placed the year-end headline inflation target at around 5.0%.It provides sufficient headroom for a rate cut in its January and April policies, if it so desires in view of other developments in real economy and asset prices. However, inflation may have to be accorded a greater weight by the central bank in its subsequent policies.

Exhibit 1: Inflation rates of major groups converge to 3.7-3.9% band

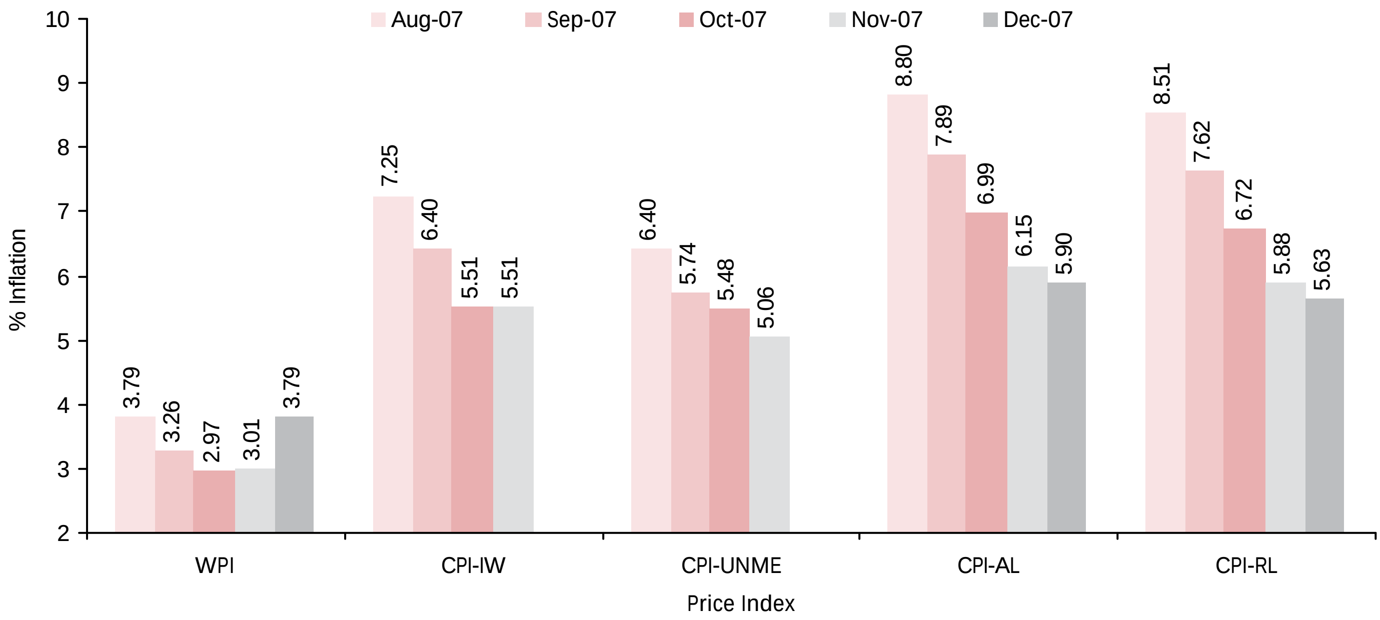
WPI inflation rate for major groups



Source: Office of the Economic Advisor, Ministry of Commerce & Industry, Government of India

Exhibit 2: CPI inflation continues to drop even as WPI inflation reverses trend

Inflation based on various price indices



Note: data for Dec.'07 for CPI-IW and CPI-UNME is not released as yet

Source: Ministry of Commerce & Industry; CSO and Labour Bureau of Government of India

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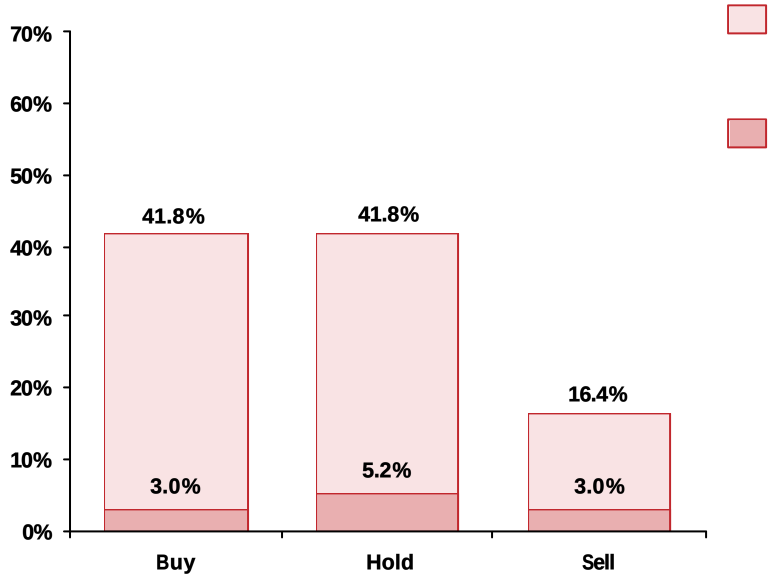

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Source: Kotak Institutional Equities. As of September 30, 2007

Ratings and other definitions/identifiers

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